ECONOMIC REFORM, GOVERNANCE AND DEMOCRACY IN EUROPE

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PART ONE: INTRODUCTION AND OVERVIEW

1.The European roots of global adjustment

A major world recession, threatened since the late 1960s, began in earnest in the mid 1970s. It marked the end of the longest and most rapid period of continuous expansion world capitalism had experienced, and initiated a new period of reconstruction and transformation. The post-war consensus on the role of the state in development was increasingly questioned, and government policies increasingly espoused what is widely referred to as 'adjustment'- a combination of austerity and greater regulation on the one hand and economic liberalisation on the other. Adoption of such policies during the 1980s must be seen not only as a response to global changes but also as a factor itself contributing to the character and direction of global change. As Ghai has argued, "the dynamics of global integration in the post- war period interacted with economic crisis in the post-1973 period to strengthen the forces and pressures for adjustment policies. The latter, reflected in liberalization, de-regulation and privatisation, in turn reinforced the thrust of global economic integration in the 1980s" (Ghai 1992: i).

The global recession was thus essentially a consequence of a deepening capitalist crisis in the West and of policies adopted in response to that crisis by Western governments. Some spoke of "a deep and widespread economic, social and political crisis in the world, which seems to be centred on a new crisis of overaccumulation of capital in the capitalist West, and on the consequent transformation of its relations with the socialist East and the underdeveloped South" (Frank 1981: ix). Others argued, more specifically, that the recession of the 1970s and 1980s had its roots in the declining profit rates and growing problems of Western capitalism in the late 1960s (eg Armstrong, Glyn & Harrison 1984). The austerity measures widely adopted by Western European governments during the mid to late 1960s (directed primarily at reducing real wages) to restructure and rationalise working processes and restore rates of profit provoked unprecedented popular protest, and a wave of strikes swept across the region between 1968 and 1970 (resulting among other things in a rapid increase in money wages). The political tremors were felt right across the continent and aroused fears regarding 'the governability of the democracies' (Trilateral Commission) and the possibility of a 'socialist advance'. In fact, the protests and the opposition to government measures represented a widespread political response to the first generalised attack on full employment, relatively high wages, the welfare state and the broad consensus on the crucial role of the state in managing developed capitalist economies since the second world war. The clampdown which followed in 1970-71, and the continuing struggle between labour and capital across Western Europe, was associated with a 'mini-recession'. The 'recovery' which succeeded this in 1972-73 proved to be the final phase of the long post-war boom.

Over the next two decades, the process of global integration and internationalisation accelerated, assisted by the policies and practices of the Bretton Woods institutions - whose support for stabilisation and structural adjustment policies (designed to bring about fundamental economic reforms to further 'open up' the economies of the East and the South) encouraged far-reaching economic liberalisation and provoked significant political changes in most parts of the world, including Europe.

2.**Economic reform and adjustment in Europe**

Discussions of economic reform in the last decade or so have tended all too often to equate structural adjustment or 'economic liberalisation') with economic reform in general. This should be challenged, for in many countries over the last two decades alternatives to economic liberalisation have been discussed and proposed, and in some cases introduced. During the mid 1970s, for example, in both Western and Eastern Europe, policies designed to combine the restoration of economic growth with the maintenance of social welfare were attempted, particularly - but not exclusively - by the social democratic, socialist or Communist Party governments that were in power during this period.

In Europe, as indeed throughout the world, however, the new conventional wisdom of the late 1970s and 1980s has suggested that structural adjustment and economic liberalisation provided the key to recovery, nationally and globally (marking a decisive break with the previous period and its emphasis on the positive role of the state in economic and social development). Increasingly, governments espousing this new conventional wisdom have come to power arguing that economic liberalisation provides the basis not only for a strong national and global economy, but also for the development and enhancement of individual freedom. The market-place has become a metaphor for social and political pluralism and choice, as well as for economic freedom.

But the economic, social and political consequences of the global crisis of the last twenty years and of the policies designed to overcome the crisis are hotly debated. In particular, the links between economic reform, the changing character and role of the state, and political participation or democracy are disputed. For some, economic liberalisation has encouraged greater political openness and tends generally to promote good government and improved welfare; for others, economic liberalisation has been accompanied by the state's retreat from its positive role in promoting economic growth and providing essential welfare functions and by an emphasis on its regulatory and coercive role, with a concomitant loss of real freedoms and decline in welfare.

While we are generally inclined towards the second of these views, we are also insistent on the need to examine carefully the historical experience of each country and each region. Much of the debate on 'economic reform, governance and democracy' is couched in highly ideological and normative terms; what is needed is a detailed consideration of the empirical relationship between economic reform, the role and character of the state, and the nature of political participation and government decision- making. This paper will therefore examine the major features of the politics of economic reform in Europe (west and east) over the past twenty years and in particular the relationship between economic reform, governance (the role of the state) and democracy, first through an overview of both western and eastern Europe, and second through a consideration of case studies.

3.**Western Europe: an overview**

i. Regime types

The states of Western Europe broadly resemble each other in terms of their developed capitalist economies, their commitment to the welfare state and to pluralist forms of democratic politics. Over the last three decades, growing economic interdependence and integration within Western Europe has encouraged closer political relations and greater homogeneity. The development of the European Community and of the European Union is both a consequence and a contributory cause of this increasing 'closeness'. But the experience of economic reform over the last twenty years has also revealed important differences between the Western European states, in terms both of their economies and their political regimes. It is possible, on the basis of similarities and differences, to identify several more or less distinct 'clusters' of Western European states.

Esping Andersen, for example, identifies three major welfare regime types in Western Europe; arguing that these owe their origins to different historical forces and follow qualitatively different developmental trajectories (Esping Andersen 1990: 3). One cluster is characterised by the **neo-liberal** welfare state, in which means-tested assistance, modest universal transfers or modest social insurance plans predominate, and benefits cater mainly to a clientele of low-income, usually working class, state dependents. Entitlement rules are strict and often associated with stigma; benefits are typically modest. In turn, the state encourages the market, either passively or actively by subsidising private welfare schemes. Britain under the Conservative government of the 1980s and early 1990s epitomises this regime type. In the second cluster are **conservative and strongly corporatist** welfare states - typically shaped by the Church - in which the liberal obsession with market efficiency was never pre-eminent; here state and family provide the twin pillars of welfare provision and rights to benefits are defined by the state in terms of class and status, rather than by the market. France, Germany, Austria and Italy all fall within this type of regime, which could be loosely termed 'continental'.

The third cluster is composed of countries in which social democracy has been the dominant force behind social reform. The most salient characteristic of the **social-democratic regime** is its fusion of work and welfare: it is at once genuinely committed to a full-employment guarantee, and entirely dependent on its attainment; on the one hand, the right to work has equal status to the right of income protection, on the other, the cost of maintaining such a universalistic welfare system means that social problems must be minimised and revenue income maximised - in other words, the welfare state is extensive but dependent on a dynamic and successful economy. This system 'crowds out' the market and constructs a general support for the welfare state: all benefit, all are dependent, and all feel obliged to pay. The Scandinavian countries generally belong within this cluster.

A more complex classification would recognise five different 'clusters' of states: 1) Britain, which, despite its post-war shift towards a more broadly social democratic welfare regime always retained crucial elements of its liberal origins and moved decisively back towards the 'neo-liberal' model during the 1980s under the Conservative government; 2) the 'continental' countries of Germany, France, Austria and Switzerland (with Italy), which broadly fall into the 'corporatist' model; 3) the Benelux states, which fall between the 'continental' and the 'Nordic' countries; 4) the Nordic or Scandinavian states of Sweden, Denmark, Norway, and Finland, which broadly represent the social democratic regime type; and 5) the Southern European countries - Spain, Portugal and Greece, with their significant transformation in the mid 1970s from dictatorship to democracy (Italy also might be grouped with these).

Whatever their differences, for all of the countries of Western Europe, the development of the European Community and relations with the EC have been increasingly important. Prospects for greater political unity, which seemed good at the beginning of the 1990s, have subsequently faded as governments have re- asserted their national concerns. But the progressive enlargement of the European Community, and the emergence of the European Union - which will include Austria, Finland, Sweden and Norway by 1995, and which has already involved Denmark, Spain, Portugal and Greece, and before that Britain and the original six core countries (Italy, France, Germany, Holland, Belgium, Luxemburg) - is a crucial factor in any discussion of the relationship between economic reform, governance and democracy in Western Europe, as these inter-national and super-national structures increasingly affect national policies and paths of development.

ii) The deepening economic crisis: 1973-1981

In Western Europe, 1973 can be said to mark a watershed. Although the roots of the global recession are to be found in the profits decline of the 1960s and in the growing instability of international finance and rising inflation during the 1970s (Boltho 1982: 20-8), the majority of commentators identify the oil price rise of the mid 1970s as marking the visible start of the global recession, with the second major oil price rise of 1979 coinciding with a massive slump.

Whatever the differences in experience and in government response between the countries of Western Europe, the years after the first oil price rise in 1973 were generally characterised by falling growth rates, rising unemployment, increasing inflation and declining investment and profit rates. In 1975, Western European GDP fell nearly 1 per cent, for the first time since 1932 (excluding the war years). There was some recovery during 1975 and 1976, but the expansion lost momentum and only a moderate recovery continued until 1979 when a further doubling of oil prices took its toll, cutting 2-3 per cent off total output in 1980. Tax increases and spending cuts, accompanied by tight monetary policies and high interest rates further depressed spending in 1981. Output grew by less than 1 per cent a year between 1979 and 1982. Government policies adopted in response to the growing economic problems of the second half of the decade, although designed to respond to them and resolve them, actually often exacerbated them.

But the slowdown in economic growth, while general, varied considerably from country to country - ranging from Norway and Greece, which maintained growth rates of 3 per cent or more, to Germany and the UK, which slumped to near zero growth. Norway increased its rate of growth of production and income in anticipation of major oil revenues; but Britain, despite oil revenues (which were smaller relative to GDP than those of Norway) shared in the general slowdown of economic growth, "suffering the heaviest deindustrialization of any European country" (Holland 1983: 22-3). Britain was the only country whose government did not deflate significantly in the wake of the 1973- 4 oil price increase, but in autumn 1974 restrictions were imposed by the new Labour government on the growth of public expenditure, and the spring 1975 budget contained further cuts.

The recession had its most dramatic effect on Southern Europe (except for Greece). These saw the rate of economic growth decline from around 7.5 per cent a year up to 1973 to a mere 3 per cent over the next decade. The export growth rate slumped from over 10 per cent to around 5 per cent a year, and the value of exports relative to imports drop by about 20 per cent. Most other European countries experienced a rather uniform slowdown in growth of exports, import penetration and GDP with smaller terms of trade losses than in the low income countries mentioned above. In Germany and Switzerland, rapid import penetration continued after 1973 but unemployment was cushioned by voluntary or forced emigration of labour.

The effects of recession and government policy on wage levels and unemployment varied across Europe, although generally the former declined while the latter increased. While real wages per employee in West Germany declined by 0.7 per cent between 1965-73 and 1973-80, in most other states the fall was greater, with Italy showing a drop of 5.4 per cent. Variations in the levels of unemployment were even more striking: in Spain, the UK, Belgium and the Netherlands the unemployed rose from between 2 and 3 per cent of the labour force to between 10 and 15 per cent in the period between 1973 and 1982; in Austria, Norway, Greece and Sweden, by contrast, unemployment rose only from between 1 and 2 per cent in 1973 to between 2.5 and 3.2 per cent. Generally, unemployment rates in the EEC as a whole grew from 3 per cent in 1973 to 6 per cent by 1980.

Average unemployment figures, however obscure not only differences between countries, but also between different sections of the population. The pattern unemployment has clear social and political, as well as economic implications. Across Western Europe, unemployment among young people grew faster than for any other group. In 1973, in France, the UK and West Germany youth unemployment rates were 4 per cent, 3.3 per cent and 1 per cent respectively; by 1982 they were 20.3 per cent, 19.8 per cent and 7 per cent. In Italy, the proportion of young people unemployed grew from 12.6 per cent of the youth labour force to 27.4 per cent between 1973 and 1982. In 1977 there were some 2 million young people out of work in the EEC as a whole.

iii) From welfare state to austerity: towards the 1980s

Despite differences in the effects of the recession of the 1970s, the general pattern of government response was very clear. The mid 1970s saw a broad Europe-wide effort by governments to develop relatively corporatist 'social contracts' between labour unions and the state. In Britain, in return for a voluntary pay restraint (that did not work in practice), the state provided food subsidies, a rent freeze and pension increases. A second social contract signed in 1976 resulted in legislation on industrial relations, prices, taxes, nationalisation, employment and training programmes and other areas of social policy in return for much more stringent and far less 'voluntary' pay policy. Social contracts were also implemented in Austria, Belgium, Denmark, Finland, the Netherlands, Norway and Sweden - all involved a broad agreement between labour unions and the state over a package of measures coupling wage control on the one hand with social, industrial and economic policies on the other. The 1976 Norwegian agreement, for example, included improvements in family allowances, food subsidies, worker representation in companies, even a bargaining system for creative artists; the Swedish agreements for 1974 and 1975-76 covered a host of social policy measures including low wages, health insurance, child and housing allowances, pension benefits and the pensionable age, security of employment, etc. Such arrangements were not confined to countries with social democratic governments.

But as the recession deepened in the late 1970s and early 1980s, these attempts to combine economic efficiency and a reduction in public expenditure with a continuing commitment to social welfare came increasingly under attack from those who advocated a more radical approach, involving generally deflationary measures and a strict control on wages in particular - in other words austerity. The December 1979 OECD Economic Outlook noted that, in a number of smaller countries "monetary policy.. appears to have become more restrictive during the year. There are few countries where expansionary policy remains in force. Fiscal policy in Sweden is still expansionary, but monetary policy has been tightened. Spain and Portugal also have a moderately expansionary fiscal stance, with an accommodating monetary posture. In Norway, a slightly expansionary fiscal policy is balanced by continued attempts to curb the growth of credit. In the other smaller countries, both fiscal and monetary policies remain either neutral or tight because of high levels of inflation and deteriorating current balance positions".

Outside the European Community there was a greater variation in the range of policies pursued: the EFTA Secretariat noted at the beginning of 1980 that in general, the EFTA countries had less restrictive domestic demand policies than those of the EEC and no appreciable tightening of economic policies had yet been discerned in EFTA countries. But it warned that "if no improvement can be seen in the growth outlook for major European economies over the course of the year (1980), several EFTA countries may have to introduce more restrictive economic policies, partly for balance of payments considerations and partly to check inflation".

Increasingly, inflation was identified as 'the key problem', although rates of increase in unemployment were even more dramatic in most countries. Most Western European countries saw inflation rates roughly double (Britain, France, Belgium, Sweden, Denmark, Finland) or even triple (Italy, Spain, Greece) between the period 1967-73 and the period 1973-80. Some, however, were able to restrict the rate of inflation (Netherlands, Norway, Austria, Germany). Again, despite significant variations between countries, a general pattern is discernible in policy response. This is summarised in the economic policy guidelines of the European Commission of December 1979 (and reinforced in the EC Review of March 1980), which argued that priority had to be given "to alleviating the inflation and energy constraints... This implies continuing with policies to control money supply growth strictly, to stabilise or cut public deficits, to improve resource allocation in public and private sectors and to prevent the oil price rises from leading to further inflation through resisting compensatory rises in nominal incomes". The European Trade Union Confederation (ETUC) Full Employment Plan for 1980-85 (ETUC 1980) also reveals (in order to oppose) a common concern on the part of governments within the European Community to keep tight control of the money supply, to reduce public borrowing and budget deficits, to cut public expenditure and maintain a strict control on wages: in other words, to maintain a generally deflationary strategy (ETUC 1980: 69-71). Data on government spending by the larger Western European countries comparing the period 1967-73 with the period 1973-80 show a general decline of between 1 and 2.5 per cent a year, with Britain showing both the lowest rate of growth in both periods and the largest decline.

iv) Adjustment in the 1980s: the varying response

The general policy response to recession - tighter control and deflation - actually contributed both to the general slowdown in economic growth in Western Europe during the early 1980s and to the deepening global crisis of the 1980s, although the policies were presented by governments as 1) a prudent response in the face of global recession and rising inflation, and 2) laying the basis for recovery.

In some states (eg in Britain), the policy response was associated with the increasing political dominance of 'the radical right' which argued that the economic problems of the decade were directly due to the past pursuit of policies of high aggregate demand, full employment, high rates of taxation, generous social welfare benefits and increasing state intervention. Elsewhere, this analysis was less widely accepted and failed to achieve such clear political hegemony, and indeed in some countries remained a minority view until the end of the 1980s.

In several countries - France, Greece, Sweden and Spain - the early 1980s saw election successes for the socialists and social democrats; and in Austria, the left - in power for a decade - decisively rejected monetarism, maintained high levels of public spending and extended economic democracy on the basis of major public ownership and planning, and kept inflation generally lower than any other European economy, except Germany. In other countries - such as Italy and the Netherlands - although not in power, the left maintained an important political influence.

One of the major features of the 1980s in Western Europe was, however, an increasing questioning of the sustainability of all the elements of 'the welfare state' and a growing belief on the part of ruling parties that the re-structuring and effective reduction of the state's commitment to provision of welfare is an essential part of reform. In all of the Western European countries, governments of whatever political persuasion became gradually more and more inclined to adopt economic reforms in the direction of the 'neo-liberal model'. Even in the Scandinavian countries, the mid 1980s saw a general reorientation of economic and social policies in this direction, although in some cases (as in that of Sweden) the explicit espousal of 'economic liberalisation' was delayed until the early 1990s.

The move towards the policies of 'neo-liberalism and the radical right' has not taken place without strong opposition. The ETUC, for example, argued in 1980 that "the current policies of governments are .. not only extremely costly in economic and social terms, but by no means certain to achieve their avowed objectives of controlling inflation. The rejection by governments of full employment as a central policy aim also reflects a pessimism which in historical terms must be regarded as shortsighted". It suggested that "a combination of faster economic growth, a major industrial policy initiative to increase investment, the right social policies - to allow faster productivity growth in certain key sectors to finance the expansion of labour intensive activities and qualitative growth in others, and a significant reduction in working hours, could allow the job gap to be filled by 1985 and full employment ultimately to be restored" (ETUC 1980: 86-7).

A broadly similar approach was advocated by the **Out of Crisis Project**, originating from a group of European socialist economists, which argued in 1983 that "it is possible to create several million new jobs over the next 10 years if the European economies pursue policies of 'better-my-neighbour' reflation rather than the present trend of 'beggar-my-neighbour deflation" (Holland 1983: 13). The Out of Crisis project pointed out that "virtually all European countries have suffered a dramatic slowdown in the rate of growth of their export earnings, especially when measured in terms of the cost of imports they buy. This slowdown has primarily been a consequence not of reduced competitiveness or loss of market shares but a slowdown in the growth of markets to which each country sells... Loss of export earnings has been both cause and consequence of a drastic cut in the rate of growth of imports in all European countries. In itself the slowdown in trade has sharply depressed private spending within each country; any government which sought to counteract this unilaterally by sustained reflation would soon have found its country's trade deficit swollen to unmanageable proportions.

In the event, governments have accommodated by deflationary action. Indeed, this is what has made the slowdown in trade so widespread and so severe. There has, in effect, been a massive trade war in Europe and elsewhere, fought not with tariffs and subsidies but with budget cuts and high interest rates. This has been a beggar-my-neighbour deflation from which all European countries have been the losers" (Holland 1983: 21).

The declaration made in Paris in January 1983 by the heads of government of Finland, Sweden, Austria, Greece, Spain and France, to be conveyed to the summit of the Group of Seven at Williamsburg in the USA in May 1983 showed that the socialist and social democratic governments hoped for a coordinated strategy of 'better-my-neighbour' to ensure recovery. Throughout the 1980s, the left opposition and the trade unions continued to argue for an alternative strategy for recovery; and throughout continental Western Europe - despite attempts to reduce public expenditure and to promote private enterprise and increase productivity and competitiveness - there has remained a strong commitment to various corporatist features, such as 'planning by agreement' (pursued in France, Spain, Italy and Greece, for example, during the early 1980s) and state provision of extensive social welfare.

This duality finds expression also in the economic and social policy of the European Community and the European Union, which is directed towards improving the efficiency and competitiveness of the Western European economy as a whole but is concerned to intervene to reduce or even prevent some of the more striking adverse effects on disadvantaged regions and sections of the population that might otherwise result from the growth of a 'free market' economy across Western Europe. The development of 'the social chapter' of the Maastricht Treaty is a manifestation of this general continental commitment to 'a human face' for capitalist development and recognition of the need for intervention on the part of the national state, or the state apparatus of the European Union, to ensure an acceptable 'social contract' between capital and labour.

v) The move to the right

Through the 1980s as a whole, the tendency for governments of 'the right' to take precedence over governments of the left or centre-left is evident. In several countries - including Britain, Denmark, Sweden, Norway, the Netherlands, Iceland and France - elections in the first half of the decade saw social democratic or socialist governments replaced by more 'conservative' governments. However, with the striking exception of Britain, in all these cases there was a strong reversal within the same decade, albeit one generally followed shortly afterwards by a swing again to 'the right'. Except in Britain, governments of whatever political persuasion and ideological orientation have found it difficult during the 1980s to retain significant popular support; and even in Britain, it could be argued, the Conservatives - gaining power with significantly less than half of the popular vote - were successful less because of an overwhelming support for the government itself than because of the lack of a clear and credible alternative.

Progressively, however, over the last fifteen years, the dominance of 'the right' has increased across Western Europe, with extreme right wing movements and parties also gaining ground, to the point where, in the recent elections in Italy they succeeded in coming to power across much of the country. The relative stability of political systems has enabled those espousing radical economic reform and right-wing social policies to emerge through an electoral process, rather than through mass action, but when in power these reforming governments have often tended to reduce rather than expand the sphere of political democracy, tending to argue that economic freedoms should be prioritised over social and political freedoms. These economic freedoms are those of individual actors, however, not those of organised labour. The activities of trade unions, broadly, been more strictly controlled and in many countries 'political' strikes have been outlawed and 'secondary picketing' (ie support for the industrial action of others) banned. Rising unemployment, resulting as much from government policies as from the recession itself, has led to reduced trade union membership and, with growing fears of redundancy and victimisation, limited industrial action. By the late 1980s, strikes were down to a quarter of what they had been in the early 1970s and in the 'corporatist' bloc of states, reduced from 42 to 8 days of strikes per 100 workers (Glyn 1992: 77).

The role of the state, although in theory to be reduced in favour of civil society and the market has in many cases been strengthened in specific areas, such as the maintenance of law and order, and has reduced the scope of political activity and circumscribed it more tightly. There are some indications of a decline in political activism (suggesting to some a growth in political apathy). And there does appear to have been a decline in party identification over the last twenty to thirty years - marked and continuous in Sweden, continuous but less steep in Italy, Ireland and France, with a fall registered also in Britain and Germany. But those expressing 'no interest' or 'little interest' in politics have tended to fall as a percentage of the population. The idea of democracy as the principle of government appears strongly held (according to a survey in 1989 throughout the EC not less than 93 per cent registered this opinion in every country), even if satisfaction with the way democracy worked was somewhat less: roughly 60 per cent (in Norway, Denmark, Germany, Luxembourg and the Netherlands at least three-quarters were satisfied, but in Northern Ireland and Italy dissatisfaction was considerably greater - up to 40 per cent dissatisfied in Italy).

On the other hand, some recent studies (eg Newton 1993) suggest that widespread fears that democracy is threatened and political activity seriously undermined have been exaggerated. Certainly in some countries, notably in the Nordic countries, trust in government has declined, but there is no clear pattern; confidence in public institutions (armed forces, education, the legal system, police, parliament, and the civil service) appears to be generally high - although ranging from 70 per cent in Norway (in 1990) to 45 per cent in Italy where the crisis of confidence in public institutions may, in part, be responsible for the landslide victories of the right.

If turnout at elections is taken as some indicator of real commitment to parliamentary and local democracy, then what is striking is the general stability over time in the figures. There is no clear pattern to sustain generalisations about an increase in apathy or political alienation. In some countries (Iceland, Sweden, Norway, Denmark, West Germany, Belgium, Luxembourg), over the period 1950 to 1989, national turnout tended to increase slightly; in others (Finland, the Netherlands, Austria, Switzerland, France, Italy, Ireland) there was a decline. The comparatively large, but uneven fall in turnout in Britain of around 10 per cent took place largely in the period between 1950 and 1970 (a post-war low of 72 per cent), and has picked up somewhat since then.

The growth of 'new' social movements during the 1980s has had an impact, but it is not clear how far they have affected political activity in general. There is evidence to suggest that, during the 1980s they have tended to become incorporated into the more formal politics of established parties and pressure groups. Only in Germany has a new social movement - the Greens - gained significant formal political support as a distinctive party. Over the period from 1976 to 1990, those supporting revolutionary action to change their economy and society tended to decline in Western Europe (from 8 per cent to 4 per cent), while those who preferred reform grew from 60 per cent to 65 per cent (touching 70 per cent in 1989, and those who feared subversion fluctuated between 25 and 30 per cent - a strong minority.

One fear, particularly among conservatives in the 'Western democracies' is that individuals and groups are increasingly turning to direct political action, including forms of civil disobedience and violence. The evidence suggests that this fear is not groundless: a recent follow-up (1989) to the Political Action survey of 1974 suggests that legal forms of direct political action are now firmly established in the political repertoire of EC citizens and indicates that there has been a slight increase between 1974 and 1989. Only a very small percentage of the population of the EC, however, has actually engaged in acts of civil disobedience (on average, 1 per cent have performed two or more acts of civil disobedience in a 10 year period).

Nevertheless, there is evidence to suggest that various forms of urban protest and violence against both property and persons is increasing. Links between unemployment and economic hardship in general, civil disorder and crime are difficult to prove, but both the increasingly frequent outbreaks of urban violence and the general rise in crime appear not to be unrelated to the social and economic effects of the recession, particularly in disadvantaged regions and among those sections of the population hardest hit by economic decline. Racial and ethnic violence, in particular, which has become more evident and arguably more severe in the last few years, is undoubtedly associated with perceptions of a threat to economic and social welfare.

There is a clear rise in support for extreme right-wing movements, usually closely linked to racist and xenophobic concerns, across Western Europe: in France, the progressive strengthening of electoral and popular support for the National Front (which gained nearly 12 per cent of the votes in national elections in 1989); in West Germany the emergence of strong neo- Nazi and fascist groups, particularly after the reunification of Germany; in Britain the successes of the British National Party in local elections;and in Italy the electoral triumph of the right and extreme right in national elections - are all indications of a broader political tendency. The tightening of controls on immigrants and generally more hostile attitudes towards social groups of non-Western European origin are also aspects of this tendency.

However, while the predominantly centre-right governments that have generally gained power during the 1990s across Western Europe remain primarily concerned with economic competitiveness and efficiency, and are certainly committed to tight control over rights associated with citizenship, they are also still concerned to preserving important elements of the welfare state and citizens' rights as part of the model of advanced welfare capitalism. The neo-liberal model, however, has its attractions (and in Britain has been politically successful for well over a decade), with its emphasis on a state which concentrates on 'law and order' rather than on 'welfare' - on control rather than on care. There is a real danger that, if the recession continues, welfare capitalism will be replaced by workfare capitalism and by increasingly repressive forms of state intervention; under these circumstances, the delicate balance between governance and democracy may be tilted decisively towards the former and away from the latter. At least one commentator referred to the political regime of 'Thatcherism' as a form of authoritarian populism (Stuart Hall); while, for the time being, it would appear that continental Western Europe has turned its back on such a response to economic difficulties, there is no guarantee that more repressive state forms will not appear, as they have done in Europe in previous periods of deep recession. The 'continental' model, in particular, may be particularly prone to even more extreme versions of corporatist regime, under pressure. The rise of fascism once again is not to be ruled out.

4.**Central and eastern Europe: general overview**

i) From stagnation to crisis and 'revolution'

While many attempts had been made in the majority of the countries of central and eastern Europe during the 1950s and 1960s to introduce economic reforms of various kinds, notably in Hungary, Yugoslavia and Poland, it was arguably not until the 1970s that such attempts became general across the region.

In the more developed and industrialised economies of eastern Europe - Hungary, Poland and Czechoslovakia - economic reforms designed to accelerate rates of economic growth while maintaining the overall system of state socialism were introduced during the late 1960s and early 1970s. These were attempts to identify and implement distinctive national paths of socialist development, but in all cases included an opening to the West to provide an added impetus. In all cases, these strategies sharpened political divisions between the Soviet Union - which saw the danger of such an opening up from the perspective of the major beneficiary of the COMECON trading bloc and political-military alliance of the Warsaw Pact - and the governments of the countries concerned. The strategies also sharpened internal divisions and contradictions within the countries concerned.

During the late 1970s and early 1980s, the Soviet Union and Eastern Europe as a whole, and virtually every individual state in the region began to experience a progressive slowing down in the rate of economic growth, reflecting a deepening structural crisis. Reforms were introduced in many states during this period, designed essentially to strengthen the economy and re- vitalise state socialism as a viable alternative to capitalism. The particular strategies adopted, however, tended to deepen rather than resolve the crisis (and the problem of foreign debt in particular), while the combination of economic reform and continued political repression increasingly threatened the moral economy of state socialism itself, generating dissidence which developed into social unrest and political opposition which developed into popular protest. This culminated in a fundamental political crisis, and the 'revolution' of 1989 in Eastern Europe and the subsequent disintegration of the Soviet Union.

Hungary undertook major reforms (the New Economic Policy) in 1968 and began to implement these during the 1970s. Measures included increasing the market mechanism, abolishing planned targets for output, and removing controls on prices. Small private enterprises were to be encouraged and state intervention in the economy generally reduced. To subsidise growth, however, the government borrowed from the West and began to develop a substantial foreign debt. The reforms tended to generate rising prices and growing inequalities which contradicted the values of state socialism and resulted in workers' protests. While in Hungary such protest tended to be relatively minor and was generally effectively contained, reforms in Poland were to produce a movement of protest which developed into a major opposition movement - Solidarity. Initially, in Poland, the reforms of the 1970s were designed less to liberalise the national economy than to open up to the West in order to increase inflows of capital and thereby increase investment in new capital goods. The effects of this, however, were contradictory and soon the government was attempting to cut subsidies and reform the economy in ways which aroused opposition from the workers whose wages and cost of living was adversely affected. By the end of the 1970s, the economy was in crisis. The next ten years saw an attempt to maintain the control of the socialist state while at the same time to introduce limited reforms. The failure of this strategy was recognised towards the end of the decade, when Solidarity was legalised and invited to join the political process. The government proposed a power-sharing arrangement, but when elections took place in 1989, Solidarity gained substantial support and occupied the opposition benches as a major independent force. In August, the first non-Communist government since 1947 took command, with a Solidarity activist as prime minister.

If Poland was the first of central and eastern European states to experience a political transformation, with the rise of Solidarity, by the late 1980s the pressure for reform, both economic and political, was growing across the region. In Hungary, at the end of the decade, as the economic crisis deepened (the foreign debt had risen to become the highest in all of eastern Europe), amidst growing public discontent with the government, the parliament legalised non-Communist political parties, while the more liberal Communist party members began to call for meetings with opposition groups and for further economic liberalisation. In October 1989, the ruling Hungarian Socialist Workers' Party renounced its exclusive role and free elections were called for early 1990.

In Czechoslovakia, during the summer and autumn of 1989, rallies and mass demonstrations in favour of political reforms and economic change grew in size until in November, after rallies of between 250,000 and 500,000, parliament voted to end the political monopoly of the Communist party. In December, a coalition government of Communists and non-Communists was formed, but this proved unworkable and unacceptable to the mass of the Czech people, and by the end of the year, Alexander Dubcek (hero of the 'Prague Spring' of 1968) was elected speaker of parliament and the playwrite Vaclav Havel, president.

In September 1989, mass demonstrations began in the GDR calling for the resignation of Erich Honecker and political reforms; and in October President Gorbachev visited the GDR to urge reform. Over the next two months, the momentum for change grew irresistible and by November, in spite of the reforms announced by Honecker's successor, Egon Krenz, and promises of more to come, demonstrators called for free elections and an end to the Communist Party's monopoly of power. The Berlin Wall was dismantled and the way was open for the eventual reunification of Germany.

But while in the northern, more developed countries of eastern Europe the Communists were to lose power almost entirely by the end of 1989, and to suffer from a massive reaction against years of association with repressive state socialism over the next two to three years, further south, in the Balkans, despite widespread social unrest and popular protest, the Communists managed to retain a degree of control, for the time being at least, and to avoid the pressures for rapid and far-reaching economic liberalisation.

The catalyst for the political, and subsequent economic, transformation of eastern Europe, however, was the shift in Soviet policy towards the region which began in March 1988 when President Gorbachev, visiting Yugoslavia, foreswore 'any interference in the internal affairs of other states under any pretext whatsoever', arguing that all nations had the right to 'their own roads of social development'. Later that year, he told the UN General Assembly that freedom of choice for all nations to decide their own path was 'a universal principle which allows no exceptions'. In 1989, the final communique of the annual meeting of the Warsaw Pact stated: 'there are no universal models of socialism'. The growing pressures for reform in Eastern Europe were thereby encouraged and those seeking reform emboldened.

If the catalyst was external, the 'revolution' of 1989 was deeply rooted in the deep and growing dissatisfaction with the combination of economic stagnation, failed reforms, political repression and ideological bankruptcy which was widely felt to characterise state socialism increasingly over the preceding decades. The mass movements which, in different ways in different states, gave rise to 'the revolution' were undoubtedly popular movements of protest; their concerns were explicitly political and their objective was to challenge and displace the existing governments and their state apparatus. Their shared perception was that of the failure of what one dissident called 'actually existing socialism' (Bahro 1981) - political failure, ideological or moral failure and economic failure - exemplified respectively by repression, corruption and stagnation.

Out of the protest movements developed a political pluralism that many have referred to as 'democratisation'. But the relationship between economic liberalisation, political change and 'democratisation' in eastern Europe is more complex than the new conventional wisdom would suggest. There is a tendency to identify 'democracy' in central and eastern Europe firstly, with the protest movements which culminated in the late 1980s in the 'revolution' which led to the effective collapse of state socialism and secondly, with the development of multipartyism as the various national communist parties abandoned their status as the unique vehicle for political organisation and the expression of political views.

It is striking, however, that economic liberalisation has itself generated substantial popular protest, often directed against the austerity measures of the new reformist governments but in some cases explicitly directed against those governments themselves, while the new political movements that have emerged have also, in some instances, proved to be profoundly undemocratic, encouraging rather extreme nationalism and various forms of authoritarian populism.

ii) The launching of liberalisation

The economic problems facing the new governments of eastern Europe were enormous. Total debt in convertible currency for eastern Europe as a whole as nearly $120 billion at the end of the 1980s, with debts to banks equalling $56 billion. Output growth had fallen from around 4 per cent a year in 1986 to 0.2 per cent in 1989. Variations in the size of the debt were considerable: in 1989, Poland's foreign debt was around $40 billion and that of the GDR and Hungary about $20 billion each; Czechoslovakia and Bulgaria had much smaller levels of debt, with $10 and $8 billion respectively. The same was true for output growth: while the GDR and Czechoslovakia managed growth of 2 per cent in 1989, Bulgaria declined by 0.4 per cent and Poland slumped by 3 per cent.

In less than a year after the effective collapse of state socialism in Eastern Europe and the widespread decline of the Communist Party (and even socialist parties) in the face of the so-called democracy movement and a general revulsion against the old regimes, governments were beginning to introduce economic reforms designed to reduce the role of the state in economic and social life and to give greater emphasis to the role of private enterprise.

As in the developing world, the international financial institutions (the World Bank and the IMF) have played a significant role in pressing governments (often by using their sizeable foreign debts and need to borrow to support the process of economic reform as the basis for 'conditionality' in providing assistance) to pursue the reforms vigorously - often against the better judgement of many within the countries concerned. This phenomenon raises important questions about economic sovereignty and governance. Governments, aware of the economic and social, let alone the political, implications of rapid liberalisation have often proved divided in their views on appropriate strategies. Indeed, one of the most widespread debates in the region has been that regarding the nature, sequencing and speed of economic reforms and their social and political costs and consequences. Those advocating 'a big bang' (a major, rapid and supposedly once-and-for-all intervention to liberalise and privatise) have been criticised by those favouring 'a gradualist strategy' (in which adjustment is achieved over a somewhat longer period of time, with protection for vulnerable sections of society and careful sequencing of measures), and vice versa.

While many supported the idea of greater freedoms, both political and economic, the austerity measures which generally accompanied these attempts at reform also generated widespread popular protest and social unrest. Thus, in central and eastern Europe, as elsewhere in the developing world (of which this region has now become a part), structural adjustment and economic liberalisation has been accompanied by popular protest; in this region, perhaps more than anywhere in the world, the transformation has been dramatic and painful. Further transformation is everywhere resisted by those sections of society most likely to lose in the process; but in some countries, arguably, it is the threat of popular resistance (the expression of the will or desperation of the masses) that now inhibits further liberalisation and the development of unrestrained capitalism. Under such conditions there may be an unavoidable conflict between 'democracy' and the transition to capitalism.

iii) Regime types in eastern Europe

The history of economic reforms enables us to make a preliminary distinction between the states of central and eastern Europe in terms of their 'openness' to reforms involving private enterprise and their 'openness' to the West. Hungary, Poland and Yugoslavia represent a group of countries where various 'revisionist' measures had produced centrally planned economies with a significant role for private enterprise and the market. These were also the countries in which there always existed significant opposition movements and arguably greater political 'openness'. Czechoslovakia could perhaps also be attached to this group of states.

More 'closed' economies, with a higher degree of political conformity include the Soviet Union, which exerted political and economic hegemony over the states of the region throughout the post-war period, and the Balkan states of Rumania, Bulgaria and Albania. The GDR could, arguably, be included in this more 'closed' group, although its distinctive relationship with the FRG ensured that, after 1989, its economic and political reforms were associated with its incorporation into another state and its effective disappearance as an independent economic and political formation; as a consequence it might be appropriate to treat it separately.

The 'open' or 'closed' character of the various states of central and eastern Europe was, to a considerable degree, associated with their reliance on foreign capital and foreign trade outside the COMECON system, and hence their tendency to accumulate foreign debts and to become subject to the dynamics of the international capitalist economy. Those deepest in debt at the end of the 1970s were those most inclined, initially, to embark on rapid and far- reaching structural changes - as in the case of Poland.

A somewhat different classification would distinguish groups of countries on the basis of their level of economic development and specifically their degree of industrialisation. This would tend to group the GDR and Czechoslovakia (or at least the Czech lands) together, with Poland and Hungary (and Slovakia) relatively developed but with major agricultural sectors. The southern countries of Yugoslavia, Rumania, Bulgaria and Albania would fall into the category of 'the less developed'. This classification would produce a somewhat different grouping from the first.

In practice, both the GDR and Yugoslavia may be regarded as unique - the former by virtue of its integration into the Federal Republic and the latter by virtue of its dramatic and tragic disintegration during the early 1990s.

iv) **The new politics of eastern Europe**

In the three 'northern' countries of eastern Europe - Poland, Hungary and Czechoslovakia - mass dissidence led not only to the effective overthrow of the one-party regimes in power, and to a significant degree of political pluralism, but also to the effective marginalisation of the Communist Party (and even socialist parties). The newly-elected governments were coalitions of 'opposition' to old state socialism, which implemented more or less radical market-oriented policies. It could be argued that they had little choice, given the levels of foreign debt and the massive pressure from the West as well as from within. The prospect of significant foreign investment and other support was immediately attractive.

The reforms introduced led to a rapid and dramatic reduction in state control and state intervention within the economy. Controls on prices were largely removed; privatisation drove ahead and the state's well-developed welfare services in health and education were reduced by spending cutbacks. The impact of these reforms was enormous. Many former state industries went bankrupt with the removal of state support; loss of output was dramatic, and accompanied by massive job losses.

Cutbacks in welfare services and the slow development of unemployment entitlements led to rapid and substantial increases in poverty levels.

In all three countries, the ruling parties argued that the immediate crisis was necessary for the establishment of the 'market regime' and that it would be shortlived, echoing the arguments of the World Bank and the IMF, who strongly pushed for radical reforms. Most forecasts turned out to be excessively optimistic. There is some evidence that this was, in part at least, intentional - Kolodka argues that "records show that politicians... often knowingly proclaimed quantitative goals, the attainment of which was at least in doubt" (1993: 132), and that forecasts were made which were, in effect, "a powerful manipulation of public opinion, which tends to be uninformed and rather easily persuaded" (1993: 135). The contrast between promises and outcome has led to a progressive loss of trust in the new 'liberal democratic' governments over the last three years.

In Hungary, party membership fell from 850,000 (members of the single Party) to under 200,000 (of all six new parties combined) between 1985 and 1991. Trade union membership also fell, from an earlier 2.3 million to under 1.5 million. Voter turnout in the 1990 elections (63 per cent in the first round, and 46 per cent in the second) was relatively high when compared with that of the by-elections the following year, when so few voters turned out that the elections were declared invalid. In Poland, in mid 1991, the Solidarity government was referred to by 23 per cent (a quarter) of those polled as 'a new dictatorship'.

Perhaps this was inevitable, given the size of the economic and social problems inherited from the previous regimes. McSweeney has suggested that "an attempt to introduce capitalism, introducing strains absent since the inception of communist rule: large scale unemployment, inflation, stark inequalities.. provides raw material for new and more intense forms of political conflict which imperil the survival of democracy" (McSweeney 1993: 418). The pace of reform has increasingly become a critical issue dividing politicians of differing persuasions to the point of open conflict; when allied to ethnic and nationalist divisions, issue of economic change becomes critical. This was, after all, one of the major factors behind the division of Czechoslovakia; and behind the disintegration of Yugoslavia. New parties offering a platform to those wishing to support extreme nationalist and racist positions have emerged, and threaten (as they do in western Europe) to become more prevalent and more powerful.

The weakening or actual disintegration of the state has been accelerated by, but has also itself encouraged, the tensions previously prevented or inhibited by state socialism between different sections of civil society. But if the state has been weakened, in many respects bureaucracy remains strong, with powerful vested interests managing in a wide range of instances to retain informal if not formal control over the allocation of resources, and either resisting wholesale change to a more open system or sliding surreptitiously into commanding positions in the new 'free market economy'. Furthermore, the previous authoritarian style of government has continued in some cases with post-communist regimes.

This has been remarked in the Czech Republic, where "the government tends to reduce the space for democratic decisions, to influence state institutions and reduce the activity of independent institutions" (Trojan 1993: 2); and others have made similar observations of the post-communist regimes in Poland.

Some would argue that it is the very plethora of new parties in an extreme version of pluralism that is responsible for many of the political difficulties. In the Polish elections, nearly 30 parties were involved, with the two largest receiving only around 12 per cent of the total vote. Bitter divisions made coalition formation difficult, but eventually Olszewski scrambled to power with barely 50 per cent support. This government was replaced not so long afterwards by a majority coalition under Suchocka. Instability tends to become an inherent feature of the system under such circumstances.

Ultimately, while multi-partyism has clearly emerged as an alternative to single party politics; democracy remains fragile. Voters may choose between parties, but have little influence over the policies adopted by eventual coalition governments. There is a real danger that political favours to enable government to operate at all will result in bloated top-heavy political structures. Poland has one of the largest governments in Europe with numerous ministries and sub-ministries, created in part at least to provide posts for minority parties in the coalition.

Nevertheless, despite these serious shortcomings, the transformation from state socialism to whatever one might call the regimes currently in place in eastern Europe has been undertaken under relatively peaceful and bloodless conditions in most cases - with the striking exception of Yugoslavia. Free elections, at national and local levels have been held; there have been important reforms in respect of human rights and freedom from censorship and control.

In the Balkans, the situation has been rather different. The more closed economies remained more strongly under state control after 1989; and politics continued to be dominated by the Communist Party, even if in most cases other parties were legalised and elections were held. Post-communist parties continue to retain considerable support, particularly from the rural areas which remain of very substantial significance in these only partly industrialised economies. The urban industrial labour force and middle class professionals, who were so important in the political transformation of the northern countries of eastern Europe, played less significant a part in the south, largely because of their more limited numbers and degree of organisation.

The movements of popular protest which developed in the south were relatively spontaneous responses to state repression triggered by developments elsewhere in eastern Europe and the capacity of the Communist Party to recognise the need for reform enabled it to survive, even if certain individuals (notably Nicolae Ceausescu in Rumania) did not. The interim government which replaced Ceausescu was composed entirely of communists, albeit liberal ones previously under arrest for criticising the regime. In elections the following year, it was the post- communist National Salvation Front which won the majority of votes.

In Bulgaria also, it was the Communist Party which in effect overthrew the long entrenched regime of Todor Zhivkov, a day after the opening of the Berlin Wall, and then, despite the growing economic crisis, narrowly won the subsequent national elections, with 47 per cent of the popular vote. Similarly, Albania's president, Ramiz Alia, announced plans for economic and political reform in January 1990, including multi-party elections; and the post-communist party - the Party of Labour - gained a majority in the elections, despite widespread protest in the major urban areas.

National elections gave these post-communist governments a mandate for cautious economic reform and gradual political change. Privatisation was slow, deregulation of state controls held back and only limited cutbacks in benefits and subsidies undertaken. Growing economic problems, however, hit these relatively less developed and more fragile economies hard during the early 1990s, and popular unrest grew, dramatically in some cases, and with diverse effects.

In Bulgaria, popular protest led to the downfall of the government and elections resulted in a United Democratic Front government which called for more radical liberal reforms. A price explosion resulted, with wages falling nearly 60 per cent against prices, unemployment rising rapidly to 12 per cent and foreign debt to $11 billion. By contrast, in Rumania, protests forced the government to postpone its second round of reforms and adopt a more modest strategy. Even so, with state control still substantial (90 per cent of property in state ownership), by mid 1991, inflation was soaring at 165 per cent and unemployment stood at around 25 per cent. In Albania, widespread social unrest accompanied the effective collapse of the economy. Even after the replacement of the Socialist Party by a 'popular democratic coalition', the government was obliged to appeal to the United Nations to intervene to help restore law and order.

The effect of widespread social unrest in the face of economies in deep distress in the Balkans is to marginalise the orderly democratic process. Divisions increase within the ruling parties as regards the appropriate pace and character of economic reform, and inter-necine struggles take place among the ruling elite; the opposition becomes more vociferous, but is itself unable to bring order to either the economy or civil society when it comes to power. At the same time, the persistence of post-communist parties in power resulted in a persistence of state bureaucracy and state institutions. In Rumania, it has been suggested that "almost without any rupture, the NSF took over the old system of clientelistic ties between local notables and party higher-ups that the communist party had established in the countryside" (Kitschelt 1992: 39). Furthermore, "the role of the armed forces and even more the dreaded Securitate (secret police) in Rumania's political life is almost as obscure as it was before 'the revolution' of late 1989. So doubts persist as to whether the country is really on the verge of a decisive democratic breakthrough or whether old structures and habits, however disguised, still prevail" (Gastenger 1992: 82).

The accountability of the new 'democratic governments' to the public, once in power, remains limited. Pressure from the international agencies for economic reforms appears more crucial than pressures from within from local populations through democratic procedures and institutions. Economic liberalism sits uneasily with bureaucratic authoritarianism, yet appears increasingly to be linked closely to it.

There is, however, a growing threat of internal unrest from ethnic and nationalist parties which emphasise 'national security' issues and the danger of ethnic minorities. The National Salvation Party in Rumania, for example, "thrived on the xenophobic predispositions of Rumanians against their own minorities, particularly the Hungarians" (Kitschelt 1992: 39); while "the Bulgarian Socialist Party and other more extreme groups propagate strongly negative views about Turkish minorities and Islam generally" (Nelson 1993: 164). In the Balkans, as elsewhere in eastern Europe, the uneven decline of state socialism is associated with increasing social and ideological divisions, often linked with ethnic and nationalist tensions which seriously threaten the fragile growth of democratic structures and practices.

PART TWO: CASE STUDIES

1. Western European Case Studies

All countries exemplify a mixture of characteristics and strategies; but the neo-liberal model, which has been advocated so widely during the 1980s as an appropriate response to economic difficulties by many, including the World Bank and the IMF, finds its fullest expression in Britain.

i. Britain: the model of neo-liberalism

In Britain, the rate of growth in GDP per capita between 1962 and 1972, just prior to entry into the EEC, was (at 2.7 per cent) by far the lowest among the developed capitalist countries. Between 1961 and 1976, Britain slipped from 9th in the world in terms of GDP per head to 18th, behind not just Sweden and France, but also Iceland, Finland and Austria. Whereas at the end of the 1950s it still accounted for a quarter of world manufactured exports, over the next decade its share slumped to 16.5 per cent, and by 1979 it accounted for just under 10 per cent.

Attempts by government and the private sector during the late 1960s and early 1970s to restrain wages and to restore declining rates of profit were met by effective resistance from organised labour. The Conservative government of Edward Heath declared five states of emergency: July 1970 - the national docks strike; December 1970 - the power workers' strike; February 1972 - the miners' strike; August 1972 - the dockers' strike; and November 1973 - the miners' strike. **Labour's Programme 1973** - the most radical manifesto since 1945 - emerged "against a background of the industrial and political crises of the Heath government and growing signs of weakness in the world economy" (Gamble 1981: 182). The Labour Party left called for an increase in state control of the economy, in social rights and democratic participation. An 'alternative economic strategy' was beginning to be articulated, with a withdrawal from the EEC and a commitment to national economic development its central features.

When Labour came to power in 1974 it was committed to radical reform. Despite a tiny majority, the Wilson government refused a deal with the Liberals and stood firm on the election manifesto. The prospect of a nationalist, socialist government alarmed many at the centre and right of British politics, and concern was widely expressed regarding 'the governability of Britain'. But a referendum on EEC membership kept Britain in Europe, and the strength of the left began to diminish. As Ben Pimlott states: "on paper the government appeared to be committed to a much more radically interventionist and redistributionist programme than in 1964... It was a false alarm and a false hope" (Pimlott 1992: 624). Britain's economic performance deteriorated very sharply in 1974-75 (with the rate of inflation and current account deficit the highest in Europe and the decline in output one of the most pronounced.

During 1975 and 1976, the government drifted steadily towards highly orthodox policies to cope with the world recession. It introduced the first package of monetarist measures, including cash limits, monetary targets and round after round of spending cuts. It also organised, with the reluctant agreement of the trades unions, a new incomes policy. The slide into defensive orthodoxy intensified when the pound collapsed in 1976 and the government negotiated a loan with the IMF. In 1976 Wilson resigned; and the new prime minister, Callaghan, declared that 'the nation could no longer seek to spend its way out of recession'. In 1977 the government lost its small majority and was forced to conclude a pact with the Liberals.

Unemployment rose from around 4 per cent in the early 1970s to around 6 per cent in the second half of the decade; inflation was greater than in any other major European country, reaching 24.2 per cent in 1975 before being brought down to around 8 per cent by the end of the decade, largely by deflationary measures. The cuts in public expenditure and other deflationary measures implied a squeeze on wages. The government's industrial strategy (**In Place of Strife**) led to confrontations with the unions. The 'winter of discontent' (1978-79), during which the government struggled with the workers it was supposed to represent, and the breakdown of the 'consensus' incomes policy of 1976-7 paved the way for a general election in 1979 in which the Conservatives took power with their own clear manifesto for radical reform.

The ideas of what came to be known as 'the radical right' had begun to surface in the early 1970s and gained momentum during the mid 1970s. In 1976, the Conservative party published **The Right Approach** and a year later **The Right Approach to the Economy**. These were to provide the basis for an onslaught on the Labour party, itself also not immune to the neo-liberal ideas now gaining ground across the political spectrum. A considerable body of moderate conservative opinion feared the emergence of 'a corporate state' under Labour; there was also a more general fear regarding the volume of public spending, which affected a wide spectrum of political opinion. Some centrist politicians - such as Roy Jenkins, who was to lead a break-away from Labour to form the Social Democratic Party in 1981 - began to suggest that the trend of spending posed a threat to democracy (Keegan 1985: 80). Fears about the high level of public spending and the threat to freedom from state encroachment were to become predominant themes of the radical right during 1975-79. Against the leftist 'alternative economic strategy' and the 'threat of socialism' under Labour, they posed 'the free market' and 'liberal democracy' under the aegis of a renewed Conservative party as the natural party of government.

In 1979, the Conservatives came to power, with a radical new leader - Margaret Thatcher. The plan was clear: a tight control of the money supply was crucial; public expenditure was to be cut, state intervention to support industry to be limited; and the privatisation of public utilities was to be promoted. Unstated in the economic programme, but central to the overall strategy, was the reduction of the power of the trade unions. The Conservative government's commitment to widespread deregulation and privatisation combined with 'flexible' labour markets can be characterised as a classic example of economic 'neo-liberalism' in operation. The state was to retreat from its interventionist role in economy and society but provide a stronger and more centralised system of policy-making and regulation within which capital and labour would - through the workings of the market - become internationally more competitive.

The early years of the Conservative government were difficult. The recession was severe: GDP fell by 5.5. per cent between 1979 and 1981 and by 3 per cent between 1979 and 1983, while unemployment soared from 1.2 million in 1979 to 3 million by 1983. Inflation - the main 'enemy' - fell dramatically in the slump (from nearly 22 per cent in May 1980 to 3.7 per cent in May 1983). But, despite its commitment to austerity measures, the government was unable to prevent public expenditure from continuing to grow. Taxes increased between 1979 and 1983 from 34 per cent of GDP to almost 40 per cent, with the tax burden falling most heavily on the lower income groups.

There can be no doubt that the Falklands War in 1982 came as a 'godsend' to a desperate government and an unpopular prime minister; Mrs Thatcher's rating in the opinion polls (which stood at rock bottom in late 1981) soared to 51 per cent in June 1982. The opposition was divided, with the newly formed Social Democrats taking more support from Labour than from the Conservatives. Despite their disastrous performance with respect to the economy, and a diminished popular vote, the Conservatives were returned with a large majority in the 1983 elections.

The struggle between capital and labour took on a particularly bitter aspect during the first half of the 1980s as the state formally 'stood aside', and encouraged employers to battle it out with workers. The state was, however, by no means neutral in this struggle: the Employment Act 1980 restricted picketing, weakened the closed shop, and curtailed union immunities for secondary action; the Employment Act 1982 further weakened the closed shop, greatly increased the rights of individuals against unions, outlawed political strikes and exposed union funds to liability for unlawful industrial action. The Thatcher government saw itself as involved in a titanic struggle against organised labour and its political representatives - the prime minister herself argued, of the opposition, that "there may be three parties but they are all divisions of socialism".

In the first years of office, the Conservative government presided over the defeat of striking steel workers, health workers, civil servants, water workers and the rail unions. Whereas in the 1970s, "the producer interests appeared to be 'partners' of the government in managing the economy", since 1979, "there has been more conflict between interest groups and the Conservative government than in any other period in the post- war era" (Kavanagh 1992: 162). The coal dispute and the miners' strike (1984-5) marked the last great struggle between industrial workers and employers, with the state heavily behind the National Coal Board. By the mid 1980s, organised labour was effectively tamed and a period of exceptionally low industrial unrest initiated. As Hugo Young has observed, "in the famous winter of discontent, 1978-9, industrial action brought Britain quite close to ungovernable anarchy. By the mid 1980s, the unions would have been incapable of launching a repeat performance even if they had wanted to. .. In 1979, for every thousand people in work, 1,274 working days were lost through strikes; in 1990, the figure was down to 108. This was a record that owed much to the leader who identified union power, recklessly exercised, as central to the British disease" (Young 1991: 605).

The government saw not only the political opposition and organised labour as antagonists but was concerned to reduce the power of local councils. Systematically, through revisions in the structure of funding and other more overtly political means, the balance of power between central and local government was altered. Bitter conflicts occurred as the government pushed through reforms cutting local taxes and spending, abolishing major city councils (such as the Greater London Council) and pushing for the privatisation of many local government services. As a result one of the unconsidered outcomes of the Thatcher years was nothing less than a major constitutional change, unargued for and not presented to the electorate in such terms, but amounting to the decimation of local control over public services which local politicians had traditionally delivered. Far from weakening the central state, the Conservative government did the opposite. Particularly where citizen's liberty met state power, the citizen experienced new deprivations. The Police and Criminal Evidence Act 1984 created large police powers; the reach of the security services was extended; a new Official Secrets Act increased restrictions and the Home Secretary claimed executive power to impede normal reporting, in the name of anti-terrorism, in Northern Ireland.

By the mid 1980s, neo-liberalism combined with a strong centralised state appeared to have triumphed. The economy had begun to enjoy a period of recovery and growth. In autumn 1986 the chancellor of the exchequer had announced that since the economy was expanding, extra spending was perfectly in order - it was only necessary to keep the public sector's share of GDP level or lower than before. Between 1983 and 1987, average weekly earnings rose by 14 per cent in real terms; personal taxation had been reduced - by 1987 the government was three quarters of the way to its stated target of a 25 per cent standard rate (from 33 per cent when it came to office in 1979) - and those in employment felt better off. The Financial Times share index quintupled in value between June 1983 and May 1987. The fact that at no time during the Conservatives second term of office did unemployment fall below 3.1 million appears to have been progressively obscured. In spring 1985, according to a Mori poll, pessimists about the economy exceeded optimists by 21 per cent; by 1987, the optimists were ahead by 17 per cent. Economic recovery (and increased public spending in health, housing and education) combined with divisions among the opposition ensured that, despite the modernisation and renovation of the Labour Party, the elections of 1987 resulted in a Conservative majority.

If before the 1987 elections, the 'radical' rhetoric of the early 1980s had been somewhat moderated, the commitment to monetarist policies quietly abandoned and cuts in public expenditure replaced by 'level spending', the period after the election victory saw a resurgence of 'radical reformism' with the welfare state the major target. No field of social policy was attacked with such conviction as education (the Education Reform Act of 1988 was the centre piece of the government's legislation in this area). But the second half of the 1980s also saw the coming into force of the 1986 Social Security Act - the largest incursion for many years upon established methods of protecting the poor and unemployed, with a new emphasis on means testing and discrimination -and the 1988 Housing Act, designed to complement the policy of council house sales and to reduce still further the control by local authorities of public housing. Another area where radical reformism gained ground again was that of privatisation.

Privatisation, from its tentative beginnings in 1979, remained one of the consistent themes of all three terms. By 1987, over one third of the companies and industries owned by the state had been sold to private enterprise. Now water and electricity were to be privatised. Finally, there was the commitment to introduce a poll tax.

This last, introduced first in Scotland and subsequently in England, proved to be a political disaster for the government. This was not all; in October 1987 a crash on the world's stock markets focused attention again on the state of the economy. When Nigel Lawson presented his 5th budget in March 1988 it seemed to represent the high point of the Conservative's reign. The top rate of income tax was reduced from 60 to 40 per cent, the standard rate from 27 to 25; the package of tax cuts amounted in all to $6 billion a year. For the first time since 1969, government finances were in surplus. However, inflation was beginning to increase again, and the balance of payments (a long-neglected factor in the oil-rich '80s) was a growing problem. Disagreement within the cabinet over the management of the currency, linked with more general differences over Britain's relationship with the European Community, became increasingly serious during 1988 and 1989, particularly between the prime minister and her most powerful cabinet colleagues. In autumn 1989 Nigel Lawson resigned, to be replaced by John Major; a year later Geoffrey Howe resigned; shortly afterwards, the Conservative members of parliament did the unthinkable - they abandoned Margaret Thatcher in favour of a less strident and charismatic leader - John Major - who would be prepared to negotiate with Britain's European partners in a more constructive fashion.

The Conservative government under John Major (returned to power in the general election of 1992) continued with the previous policies of privatisation and liberalisation, but with a more 'low key' rhetoric. Less hostile than its predecessor to collaboration with Europe, the new British government nevertheless continued to emphasise the need to be 'competitive' in world markets and thus to argue against most elements of the Social Charter (regarded by many in Europe as a crucial basis for the defence of welfare and living standards for ordinary working people) and in effect part of the corporatist project, as creating unnecessary 'rigidities' and constraints on the dynamic of European capitalism.

Britain would maintain into the mid 1990s its commitment to the neo-liberal strategy. As Ghai argues, "it is worth noting the difference between the pattern of reform in the Anglo-Saxon countries and some others such as Austria, Germany,... the Netherlands, the Nordic group and Switzerland. This difference relates to whether the measures taken represent a continuation or reversal of earlier reforms. On the whole, while most industrialized countries have followed policies to deregulate finance, transport, communications and utilities, the Anglo-Saxon countries have pursued with equal vigour measures to reduce taxes and government expenditure on social security and welfare, create flexible labour markets and promote privatisation. The others have proceeded much more cautiously in these areas. This divergence has a bearing on social cohesion and economic performance" (Ghai 1992: 7).

As regards social cohesion, there can be little doubt that the 1980s saw social divisions in Britain increase. The growing inequalities in wealth and income distribution of the 1980s (which were also divisions between north and south - between the affluent 'home counties' and the old industrial areas of the midlands, the northeast, the northwest, Wales and Scotland) gave rise to increasing social tensions and social conflict. Riots in the inner cities, rising crime and violence marked and marred the 1980s. Even many old Conservatives (such as Lord Stockton, former prime minister Harold Macmillan) were alarmed at the social divisions accentuated by the Thatcher years.

Perhaps significantly, Mrs Thatcher won three elections on a descending proportion of the vote; in 1987, only 32 per cent of the total electorate supported her. Finally, for all the rhetoric (and the reality) of giving greater rein to market forces and reducing the commitment of the state to public expenditure on welfare, opinion polls held at the end of the 1980s suggested that over 60 per cent felt their ideal country to be one in which public interests and a managed economy were more important than private interests and a free market economy, that nearly 60 per cent felt that keeping people in unprofitable work was preferable to sacking them in the name of profit and efficiency, and that 54 per cent would prefer an emphasis on collective welfare to one on individual self-help.

ii. The Nordic countries: the social democratic model

Arguably at the other end of the spectrum from Britain, and representing for many in Britain the favoured alternative to the neo-liberal model, are the Scandinavian or Nordic countries. At the beginning of the 1970s they epitomised the 'social democratic' type of political regime, with a full commitment to the welfare state and universal benefits. Generally governed by 'left-wing' social democratic parties, a high level of political support meant that the welfare state could be supported by relatively high taxes. Government spending on welfare was high, but economic performance was also generally good. Unemployment was generally low (around 2 per cent), wage bargaining was centralised, and labour and capital both supported the 'social contract' that ensured relatively trouble free industrial relations and a sound economy. Sweden was probably closest to this model, with Finland closer to the continental model, and Norway and Denmark in between.

From 1973 onwards, the Nordic countries were increasingly affected by the global recession. The initial response was to increase government spending to 'kick start' economies experiencing recession, while maintaining a commitment to low unemployment and universal welfare benefits. This strategy led to increasing budget deficits: the recession tended to reduce income from taxation while the commitment to social welfare ensured a high level of public expenditure. Norway had a foreign debt by 1978 equivalent to 47 per cent of GDP, despite some advantages from the increase in oil prices. Inflation increased during the second half of the 1970s, partly as a result of collective bargaining and the relatively strong position of labour, and partly as a result of imported inflation.

Industrial relations deteriorated as workers saw wage increases devalued by inflation and employers saw profits squeezed by a combination of increased labour costs and increased input costs. The economy tended to stagnate. There was growing support for 'right-wing' parties and policies as the traditional social democratic strategies appeared to be failing to revitalise the Nordic economies.

The period from 1978 to 1980 was generally characterised by austerity measures, including wage freezes and spending cuts. In the first few years of the 1980s, the social democrats were losing power to more 'conservative' parties (except in Sweden). As a result, there was a progressive convergence during the mid 1980s between the different Nordic countries as those with a greatest prior commitment to the welfare state cut back and altered course most drastically (eg Denmark), while those with a lesser commitment felt less obliged to introduce major reforms (eg Finland, which had a series of centre-right coalitions during the 1980s). Sweden, which had a centre-right government between 1976 and 1982 nevertheless maintained its welfare commitments during this period. The budget deficit rose to 10.4 per cent of GDP by 1980 and, following an economic and political crisis in 1981 (characterised by high inflation and industrial action and workers' demonstrations) the government introduced cuts in health, housing and pensions. In 1982 the social democrats were re-elected with a platform of 'the third road' - between Keynesianism and neo-liberalism; this proved effective: the deficit was rapidly reduced and the economy recovered (unemployment declined from 3.5 per cent to less than 2 per cent). The commitment to the welfare state remained high. Inflationary pressures continued to grow, however, and by 1990 inflation was running at 6.6 per cent (high by Swedish standards) with the balance of payments deficit now substantial. Sweden's international competitiveness was falling. In 1991, the government introduced austerity measures, and the conservatives were re-elected, with their priority, for the first time to reduce inflation and restore economic growth as a priority, before full employment. More than a decade after the UK, Sweden had a government committed to economic liberalisation. New competition laws were to be introduced, markets were to be de- regulated and liberalised, and both public expenditure and taxation were to be reduced.

By 1993, the traditional Swedish model involving a stable consensus between workers, management and the state on pay, conditions and workers' rights which had prevailed since 1938 was rapidly becoming a thing of the past. For a country habituated to low levels of unemployment, the current rate of 14 per cent is traumatic. Labour relations have deteriorated and increasingly companies are seeking to sidestep national collective wage bargaining procedures and to impose local pay deals. They argue that the present laws are unwieldy, result in excessive pay settlements and make it too expensive to employ people. On the other hand, trade unions are beginning to react to the threat to collective bargaining and to proposals to change the traditional **arbetsratt** which stipulates a last-in, first-out rule for layoffs. Metalworkers, engineering and even office workers' unions threatened a national strike in late spring 1993, but called it off at the last minute. The largest blue collar trade union confederation is considering calling a political strike by its half million members in the autumn to protest against government policies.

It remains to be seen whether the grassroots have the stomach for a fight, for the recession has bitten deep. As the former Social Democrat finance minister, Kjell-Olof Feldt has remarked, "feelings may be running high, but people are also worried about keeping their jobs" (**The Guardian** 22.6.93).

Norway fared better than the other Nordic countries as a result of the revenues accruing from the sale of North Sea oil and gas. During the second half of the 1970s the government maintained a high level of public expenditure, which resulted in growing inflation and an increasing budget deficit. In 1980, austerity measures were introduced, and the next year the conservatives were elected. Their policy was to continue with public expenditure cuts, to reduce taxation and to increase competition by the deregulation of markets. Unemployment rose from 1.7 per cent to 6.1 per cent over the next few years. But policies to open up markets induced a consumer boom and the economy overheated during the mid 1980s. In 1986 a labour government was elected and introduced austerity measures to reduce inflation and turned the budget deficit into a surplus; unemployment remained around 5 per cent (in 1989). In 1989 elections returned a conservative coalition government. The 1980s have seen a mixture of economic policies pursued with little major change; oil revenues have helped keep the economy more buoyant than it would have been otherwise.

Denmark experienced severe public expenditure cuts in the early 1980s under a new conservative government and some aspects of 'neo-liberalism'. But the commitment to welfare continued, while decentralisation of welfare to local authorities was pursued. By the end of the decade, Denmark was experiencing low inflation but also relatively low economic growth; unemployment had increased substantially to around 10 per cent. Currently, Denmark is experiencing a deep recession. Iceland experienced an economic downturn in the late 1970s and austerity measures were introduced in 1981-82. In 1983 the conservatives were elected and pursued an essentially 'neo-liberal' policy of public expenditure cuts and market reforms.

In general, the Nordic states retain relatively strong economies and a strong commitment to social welfare. The Nordic countries generally provide evidence that strong economies and high living standards, a broad political consensus and strong commitment to welfare provision, remain possible even in the face of global recession. But the global recession of the 1980s has certainly encouraged a gradual reorientation of the balance of political forces to the conservative right. As social inequality increases and the emphasis on individual freedom rather than collective responsibility gains ground among the middle classes, the willingness to pay high taxes for state-provided universal welfare is decreasing. Unemployment has increased and the strength of labour been reduced. While social democracy maintains a strong presence, it no longer provides the basis for a general consensus. Loyalty and commitment to traditional parties has declined and generated greater uncertainty and higher volatility among voters. This is especially true in Finland, where in 1991 25 per cent of the electorate changed its preference (in comparison with 1961 when only 11 per cent changed). The proportion who felt that at least one party stood for policies with which they identified dropped between 1983 and 1991 from 68 per cent to 44 per cent.

As the economic crisis began to hit the Nordic countries hard during the early 1990s, there were increasing signs of strain, and economic reforms, including moves towards greater liberalisation and privatisation, are taking place. Even the "internationally highly visible Scandinavian welfare state has run into mounting problems in the early 1990s, calling for a re- evaluation of the place of market values.." (Lanu 1993: 24). The long-standing consensus between political parties, employers and trades unions is breaking up, with increasing pressure for more radical changes, and a general decline in the strength in economic policy formulation of the unions. These growing internal pressures will be increased as integration within the European Union takes place. Joining the EU will oblige the Nordic countries to confront the implications of the free market and the progressive elimination of controls on movement of capital, commodities and labour. In general these pressures will tend to increase the momentum towards increased economic liberalisation.

iii. Continental Europe: the corporatist model

In the continental countries of Western Europe as a whole, despite the implementation of measures to reduce public expenditure and to promote private enterprise and productivity growth, there remained throughout the 1980s a strong commitment to various 'corporatist' features, such as 'planning by agreement' (pursued in France, Spain, Italy and Greece during the early 1980s) and state provision of social welfare throughout the 1980s. The emergence of the idea of the Social Charter in 1989 and of the Social Chapter in 1991 demonstrated the broad agreement across the member states (with the striking exception of Britain) regarding the need to maintain a general commitment to state provision and state protection of social welfare, while at the same time encouraging the free movement of capital, labour and commodities within the European Community.

In the northern continental countries, while Germany, France, The Netherlands and Belgium all began to implement structural adjustments from 1982-83 onwards, the reforms were nowhere near as radical as those in Britain. The state tended to retreat from its economic intervention and commitment to employment, social benefits and welfare provision, but only to a limited extent. Overall, the majority of continental European states remain firmly committed to a partnership between the state and the private sector. The relatively cautious pace of reform has been determined in part by the continuing consensus system of government. Coalitions between different parties have tended to dilute or inhibit more radical proposals for change, while in policy formulation the complex bargaining process, involving the state and various interest groups (including capital and labour), has moderated the policies adopted.

The Federal Republic of Germany

This is particularly the case in the Federal Republic of Germany, where no abrupt change has occurred in parties or policy over the last forty years. Most government policies are the result of complex deals involving many different groups (including banks, firms and unions), whose interests are expressed through judicious compromises. As Smith has observed, "the major themes of the 1980s were ones of continuity and consensus. Old ways showed a remarkable power of survival in the face of a more turbulent international environment of innovation and change" (Smith 1989: 150). The fact that Germany survived the recession of the early 1980s better than most Western European economies further reduced the impetus for radical reform.

While Britain came to represent during the 1980s the prime example of the 'neo-liberal' strategy, and the Nordic countries managed to maintain the major characteristics of the social- democratic model despite the growth of economic, social and political differences, the Federal Republic epitomised a different, more 'corporatist' regime and strategy. This strategy appears to have been generally relatively successful in maintaining a high level of economic growth in combination with a relatively low level of social and political conflict.

The 1950s saw the reintegration of West Germany with the rest of Western Europe and the development of an economy characterised by rapid export-led growth and a high degree of stability. The rate of growth in GDP per capita between 1962 and 1972 was 4.5 per cent - one of the highest rates in Europe; productivity growth was the highest in Europe (between 1950 and 1976 it was nearly 6 per cent a year, as compared with 2.8 per cent in Britain). In 1971, it became the second largest trading nation in the world and the first European nation to overtake Britain since trade statistics had been collected.

Through the 1970s the rate of unemployment in The Federal Republic remained low - although rising from around 1 per cent in the years 1972-74 to around 3.5 in the years 1975-1979. Inflation also remained generally low, increasing to around 7 per cent in 1974, but returning to below 3 per cent by the end of the decade. Like Britain under Labour, Germany under the Social Democrats initiated significant cuts in public expenditure. Throughout the 1960s, spending on welfare had grown significantly - by 1975 it amounted to 28 per cent of GDP. But 1975 saw the introduction by Chancellor Schmidt's Social Democratic government of the Budget Structure Act, which raised unemployment insurance contributions and cut expenditure on hospitals, education and other welfare items. By 1976 the Public Sector Borrowing Requirement had risen to 5 3/4 per cent of GDP (still remarkably low in comparison to Italy with 10 per cent and Britain with 9 per cent), and further cuts in public expenditure were made in 1979 with the development of a significant public debt crisis. As in Britain, the inability of the Social Democrats to deal decisively and successfully with the difficulties generated by the recession of the second half of the 1970s led to their defeat in national elections.

But in the FRG, for all the proposals made by the incoming centre-right government of Kohl for cutbacks and privatisation, the reforms actually introduced were limited. Throughout the 1980s, until the events of 1989-90 and the decision to pursue the integration of the former German Democratic Republic, the FRG maintained a careful balance between state intervention and the promotion of the private sector. Unemployment certainly rose (from 3.7 per cent in 1980 to 9.3 per cent in 1983 during the depths of the recession) during the 1980s, but until reunification were kept in single figures (unlike many other western European countries).

Unlike Britain and the Nordic countries - who for strikingly contrasting reasons are wary of integration within the European Community, the FRG has been an enthusiastic member of the Community and has effectively played the role of the leading European national economy within the Community during the 1970s and 1980s.

The Netherlands

The Netherlands is, of all the continental states, the closest to the Nordic countries in terms of its commitment to the welfare state. Yet there are significant differences. The defeat of efforts by the socialists to institute radical economic and social changes in the immediate post-war period established the context for a Christian Democratic / Social Democratic consensus during the 1950s regarding the role of the state in providing social security through a high level of income maintenance.
Scandinavian style reformism, which explicitly accepts state regulation of the economy and which pursues full employment as the best form of social security, was never present in the post- war social democratic movement in the Netherlands.

However, during the period from 1964 to 1975 - a period of unprecedented economic growth and prosperity - the social security system was considerably extended. In 1973, the Den Uyl government, dominated by social democrats and other left wing democrats, initiated a period (1973-77) of significant growth for the Dutch welfare state. The beginning of the Den Uyl government coincided with the oil price rise and world wide economic recession; at the time the structural nature of this crisis was not recognised and it took until the early 1980s for the conviction to grow in the Netherlands that the alleged cyclical and short term recession had turned out to be a structural economic crisis.

Until the early 1980s, when a period of economic reforms was initiated, the Dutch welfare system was indeed a **verzorgingsstaat** (a caring state). However, the essentially passive nature of the Dutch welfare state and its crucial dependence on economic performance became evident only after the economic recession of 1973, when the absence of a coherent and active labour policy meant that rising unemployment led to significant social hardship (the comparatively high rates of unemployment in the Netherlands, especially after the second oil price increase of 1979 are striking). The so-called politics of retrenchment, inaugurated towards the end of 1975 were unsuccessful in responding effectively to the rising numbers of those out of work. Despite a new conservative-liberal offensive, however, the political forces defending welfare state policies (which included large sections of the Christian Democratic bloc) managed to prevent a systematic turn towards the politics of austerity until 1982 - the year which, for many, marks the turning point in the post-war development of the welfare state in the Netherlands: a new liberal policy to fight the economic crisis shattered the already fragile Keynesian paradigm.

The period between 1976 and 1982 can best be described as a transition period in which a struggle took place between those concerned to maintain a high level of welfare provision and those attacking the 'spendthrift nature' of the welfare system. Public expenditure on social welfare in 1982 accounted for 33.3 per cent of GDP (in Britain the amount spent that year amounted to 23 per cent). The first systematic and coherent formulation of a new economic strategy for the Netherlands, that departed considerably from the welfare state consensus of the previous period emerged in 1982. In 1982 the Labour Party lost 5 per cent of its constituency. The new coalition government of Christian Democrats and Conservative Liberals presented a rather ambitious programme designed to cope to the economic crisis, in which the restoration of profitability was crucial and the problem of unemployment secondary.

By 1984, 14 per cent of the Dutch labour force was unemployed and the Netherlands joined the group of Western European economies with mass unemployment (Belgium, Ireland, Britain and Denmark). Over the next few years, the social security system was further re-structured, and in 1987 the unemployment facilities were replaced by the New Unemployment Act, which effectively reduced the entitlements of the unemployed. The 'social minimum' remains an important touchstone for social policy and no political party, even at the end of the 1980s, dared propose substantial cuts in the social minimum; which reveals the continuing commitment to the welfare state ideal, despite its erosion.

France

The French state has been one of the most interventionist among the Western European states in the post-war period. The system of indicative economic planning, introduced in 1946, involved the collaboration of trades unions and industrialists. Developments during the 1960s and 1970s, however, led to an increasing reliance on international trade and the share of trade in France's GDP doubled; the French economy became increasingly sensitive to international economic events that policy-makers could neither predict nor control.

The French economy performed well during the 'thirty glorious years' of the immediate post-war period. In terms of GDP growth per head it was the fastest growing economy in Europe between 1962 and 1972 (with an annual rate of 5.7 per cent, compared with 4.6 per cent in Italy, 4.5 per cent in West Germany and 2.7 per cent in Britain). Productivity growth was not so high (4.9 per cent between 1950 and 1976, as compared with 5.3 per cent in Italy and 5.8 per cent in West Germany) but significantly higher than in Britain (2.8 per cent). It retained its share of world manufactured exports (at around 10 per cent of the total).

Responses to the international recession following the oil price increase of 1973-74 broadly paralleled those in other western European states, but the political tendencies associated with the policies were strikingly different from those in the rest of Europe. Thus, the expansionist policies adopted in 1975-76 (to counter the effects of the recession following the oil price increase of 1973-74) were those of the conservative government under Giscard d'Estaing and Chirac. These policies fuelled inflation, profits declined and the trade deficit grew. Local elections in March 1976 showed a leftwards swing and Chirac resigned as premier. The new cabinet, under Barre, adopted a fairly austere macro-economic stance, designed to reduce domestic inflation and spending on imports. The seventh economic plan for 1976-80 emphasised selective investment and support to industry in the face of continuing recession, and accepted the stiff regulations limiting lay-offs, passed in 1975. But it also removed price controls in some areas of the economy, introduced tax incentives to stimulate the purchase of shares and developed a system designed to tie state subsidies to industries more directly to market performance. The combination of market and state policies was successful in some respects and France maintained a lower rate of inflation than most Western European countries during the second half of the 1970s. Living standards, however, stagnated and the second oil price rise in 1979 dashed Barre's hopes for a recovery. Unemployment doubled, and by 1981 the economy was in deep recession; the major heavy industries were particularly under threat; social tension and racial violence increased.

May 1981 saw the election of Francois Mitterand as president and there were hopes of radical reforms under a socialist government. The government, in the face of a global recession, was cautious, but a broadly expansionary strategy was adopted, unemployment was reduced and wages increased. The nationalisation of most of France's large-scale industries was undertaken (including banking, telecommunications and chemicals). State control over industry doubled and GDP growth was appreciable. These measures were financed by higher social insurance and corporate taxes and a rising budget deficit. This 'radical Keynesian' strategy, adopted at the start of the 1980s was strikingly in contrast with the policy of increasing privatisation and deregulation beginning to take shape across the Channel, in Britain.

The cost of nationalisation was, however, considerable; the budget deficit grew and taxes were raised. Imports grew as a result of rising domestic demand, but exports failed to keep pace and the trade deficit increased, as did the balance of payments. The socialist government began in 1982 to introduce stringent austerity - **rigueur**. The franc was devalued, reforms were halted, taxes were increased, growth ambitions were scaled back to near zero, and sets of measures (including temporary wage and price policies) implemented to de-link wages from inflation. Working hours were reduced in 1982, but this resulted in only a marginal decrease in unemployment. In late 1982 and early 1983 the exchange rate came under increasing pressure and the Mauroy government decided to respond to demands to reduce still further the budget deficit and deflate the economy. The implications of this choice were profound. Public spending had to be cut back, subsidies to industry had to be scaled down and French business had to be made more competitive internationally. In 1983 measures were introduced to cut social security and implement further austerity measures.

Between 1984 and 1986, under a new prime minister, Fabius, the government began to alter its general strategy and turn decisively towards the market. Government controls over the nationalised industries were loosened so that they could lay off workers, become more profitable, invest abroad and even sell of subsidiaries to raise funds. Corporate taxes were reduced and public sector wages held down to enhance corporate profitability. Measures were also taken to deregulate and revive the private capital markets. To accompany these measures, the government began to adopt a market rhetoric that made many concessions to the increasing neo-liberalism of the employers' federation and parties of the right.

In 1984, 1 million people demonstrated in Paris against a proposed education reform and other indications of social discontent with government policies began to surface. In the elections to the European parliament, more than 10 per cent of voters supported the extreme right National Front party of Le Pen. Over the next year or so, unemployment remained high (around 10 per cent), economic growth low and the budget still in deficit, despite a fall in inflation and some improvements in trade. Disillusionment with the government on the left, and concern at the poor economic performance on the part of the centre and right, reduced support for the government.

The 1986 general elections strengthened the right and gave them - as a coalition of conservative parties - control of the national assembly. With Chirac as the new conservative prime minister, committed to the dismantling of the old dirigiste state policy instruments, and Mitterand as president, there began a difficult period of **co-habitation**, with Mitterand attempting to moderate Chirac's policies, particularly on economic liberalisation and nationality. The economic policies of the Chirac government were designed to give priority to the fight against inflation rather than unemployment; the emphasis was put on tax cuts rather than public spending increases. In 1986 all price controls were removed and a variety of regulations limiting lay-offs were repealed. It also pursued and enlarged the programme of financial deregulation begun under the socialists in 1985. The most radical of the government's measures was a massive programme to privatise many of the nationalised industries. Both immigration and family policy became election issues in 1986 as the Chirac government attempted to link the two by making benefits more tightly conditional on citizenship. The right called immigration 'the other co-habitation'.

This period ended in 1988 with Mitterand gaining a 54 per cent majority over Chirac and the socialists returning to government with Rocard as prime minister, having won the parliamentary elections in June. The early policies of the Rocard government, however, displayed a continuing emphasis on the market. Tax cuts, reductions in public expenditure and further privatisation were implemented; industrial policies focused increasingly on small and medium-sized enterprises, rather than the industrial giants and the government pursued a more active manpower policy. Some have argued that this represented a new, modernised social democratic strategy, working with rather than against the private sector; others, that it was a betrayal of socialism. Undoubtedly, the socialists 'recentred' their strategy and their appeal (rather as the British Labour party did during the second half of the 1980s).

In some respects, the French economy entered the 1990s in a fairly healthy economic condition, with the rate of economic growth reaching 3 per cent for the first time since 1976. But as the economy has become more integrated with the international economy, particularly after 1992, there has been increasing pressure from the more powerful industrial and commercial interests to open up the national economy still further; at the same time, the strength of the trade unions tends to be reduced.

The potential for a political backlash is great: nationalism and right wing populism already show signs of increasing in the face of 'the open economy'. Unemployment continues to erode support for the left as the traditional areas of heavy industries experience continued decline and the extreme right becomes a permanent presence in French politics. In the March 1992 regional elections the National Front gained 14 per cent of the votes to become the third strongest party. The two major conservative parties have vied with each other for the racist vote during the early 1990s, thus legitimising xenophobia and racism. Le Pen, on the other hand, seeks to present himself as the French Reagan (or Thatcher), advocating popular capitalism, privatisation, the dismantling of the welfare state and a laissez-faire attitude to the economy matched by a heavier state involvement in law and order; the economic dimension is added to give the political slogan of 'national preference' greater weight. But, for some, the National Front is not a 'normal' party - "it has a name. The name is fascism" (Fysh & Wolfreys 1992).

Indeed, the potential for a growth in right wing, fascistic movements is now considerable across Western Europe as a whole. The recent elections in Italy underline the significance of this development, not only at the margin of national politics but across an entire country. This potential is present furthermore both in those southern European countries which so recently were subject to fascist dictatorships and in the northern continental states which experienced the rise of fascism during the inter-war period.

2.Eastern European Case Studies

i. 'The northern states'

Hungary

In 1968, the Hungarian leadership adopted a set of measures - known as the New Economic Model - designed to greatly strengthen the market mechanism, dismantle the administered material allocation system and abolish compulsory plan targets in relation to output and assortment. It was intended to link domestic prices with those on the world market so that, subject to import duties and certain other restrictions, enterprise managers could buy and sell across borders. Prices were partially decontrolled; managerial bonuses linked to commercial results; and investments to be financed mainly by interest-bearing credits with the enterprise responsible for about half of all the investments.

In agriculture, the imposition of compulsory delivery quotas was discontinued, and a wide range of non-agricultural activities was undertaken by the collective (cooperative) farms. Private enterprise on a small scale was allowed. Central planning was to be confined to the 'macro-scale' and key sectors such as energy and transport; quinquennial plan targets for specific products would remain, but they would be indicative and not obligatory.

The so-called New Economic Model was not consistently applied and there was some retreat from its full rigour; in fact there were many subsequent modifications and 'policy zigzags' over the next years. The de-control of prices was largely achieved, but the original plan to encourage the merging of domestic and foreign prices to enable enterprises to buy and sell inside or outside the country was only partially realised, in large part because of the accelerating rate of global inflation after 1973 and the oil price rise and the increasing gap between internal and external prices, which necessitated a complex system of price subsidies to maintain price stability. This policy was abandoned in 1980, when internal prices were sharply raised.

Looking back over a decade, Kornai (in 1979) claimed that the reform of 1968 was reasonably successful, although it had revealed the contradictions inherent in 'market socialism'. Nove argues that "one important lesson to be learnt from Hungary is that not only is the elimination of excess demand necessary, but it is possible even in situations in which it involves unpopular price rises. It was necessary for Hungarian policy-makers to overcome political fears and the pressures of those who, disliking market- type reforms, were willing to use the unpopularity of price increases to discredit them. It is an important political-social fact that reforms of the Hungarian type encounter strong resistance, and it is remarkable that Hungarian reformers have met with some success in their efforts, in contrast with the almost total failure of similar efforts in other communist-ruled countries" (Nove 1983: 125).

One of the reasons for this might be that, despite the official 'freeing' of prices and the extension of 'the market mechanism', informal controls remained which limited the operation of 'the free market' and inhibited the rapid and socially disruptive development of major inequalities. At the same time, the government was able to control wage increases, without too much difficulty, despite the fact that the worsening terms of trade towards the end of the 1970s led the government to increase retail prices faster than wages. Hungary also managed to avoid serious unemployment, and there was relatively little labour unrest during the 1970s. This was in striking contrast to the situation in Poland: one of the consequences of the New Economic Reform was an increase in retail prices to a level which "upset many citizens, though without leading to riots, as was the case in Poland" (Nove 1983: 130).

The reforms introduced during the 1970s were taken further in the early 1980s, when Hungary joined the World Bank and the IMF (in 1982) and the government introduced a strong of further reforms designed to generate more characteristics of a market economy. It was arguably only in the summer of 1988, following a major reconstitution of the leadership of the ruling Hungarian Socialist Workers' Party (the Communist Party), that a full commitment to wholesale economic reform was made. In 1988, the elderly Janos Kadar was replaced as Party chief by Karoly Grosz.

Kadar was blamed for Hungary's deteriorating economic situation, but Grosz managed little better. By the end of 1988, Hungary had the highest per capita foreign debt of all the eastern European economies. During 1988 and 1989, the economy and the nature of the reforms required became the central focus for debate; there was general agreement that a significantly greater role for the market was essential. There were also increasing pressures for political reform. But when the 'revolution' of 1989 took place, Hungary had already experienced nearly two decades of experiments with economic reform and liberalisation.

In February 1989, amidst growing public discontent with the Grosz government, Hungary's parliament legalised non-Communist parties. Groups that had previously existed as informal associations or 'forums' now reconstituted themselves as parties. At the same time, the more liberal Communist Party members of the government began to call for meetings with opposition groups and for further economic liberalisation. In March, 75,000 marched in Budapest to demand free elections and the withdrawal of Soviet forces from Hungarian soil; the authorities did not stop them, and Gorbachev pledged not to interfere in eastern Europe. In May, the government decided to stop enforcing an agreement to prevent eastern European visitors to Hungary from fleeing to the West across Hungary's borders, and thousands of East German 'tourists' fled into Austria, encouraging further pressures for change within the German Democratic Republic. In October 1989, the Hungarian Socialist Workers' Party renounced its exclusive political status to become the Socialist Party; and free elections were called for early 1990. In December, the IMF concluded an agreement with the government which provided for a substantial loan (L460 million) in return for a programme of tough economic reforms, including cuts in the budget and in particular in subsidies on food and other goods, increases in rents and mortgages, and progressive privatisation.

The first free elections since the war brought to power a coalition government led by the right-of-centre Hungarian Democratic Forum, which began a radical restructuring of the economy. During 1990, Hungary implemented what the World Bank referred to as "a determined stabilisation compatible with a shift toward a private market economy" (World Bank 1991: 8). But economic reforms provoked social unrest. At the end of October 1990, taxi drivers went on strike, provoked by an overnight increase by 65 per cent in petrol prices; the strike paralysed Hungary as drivers blocked all the major cities and roads between cities. The government, although facing discontent over its handling of the economy, now abandoned caution and announced a programme of radical reforms. The new six month programme, to be put to parliament in December 1990, was expected to push inflation to above 35 per cent, to bankrupt one in three companies, and more than double unemployment to 200,000. "The economic programme will demand a single but huge sacrifice and throw open opportunities for breakthroughs", argued the top economic adviser to the prime minister, Gyorgy Matolcsy. The programme would slash state subsidies (mainly on food, domestic fuel and electricity, and transport) by 50 billion forints. Wages and imports would be liberalised, as well as prices; and a 10 per cent cut in personal tax was planned. To limit the negative impact of the reform programme on welfare, a set of social policy measures were proposed: the higher prices resulting from cuts in subsidies were to be offset by increased pensions and family allowances, at least for lower income groups; larger budget allocations would be required for unemployment compensation, employment services and retraining programmes provided under the Employment Policy Fund created in 1988 to counter the effects of higher unemployment. At the same time, all social welfare programmes would be thoroughly reviewed and reformed; there would be an end to cheap housing, and both health care and social security programmes would be revised to reduce costs and improve 'targeting'.

The impact of the economic reform programme was striking. The private economy boomed and foreign investment inflows exceeded expectations. On the other hand, "by the end of 1991, the government was reported to be deeply unpopular. Unemployment had reached an estimated 8 per cent and real incomes had fallen during the year by around 2-3 per cent" (Langhammer, Nunnenkamp & Hiemenz 1992: 107-8). Unemployment rose from 80,000 to 400,000 in 1991 as a result of the fall in real wages, the closure of big state enterprises, the sacking of thousands of state employees and the consequent collapse in domestic demand; there was also a massive decline in trade with the former Soviet Union.

Poland

In Poland, the new government of Edward Gierek - in 1970 launched a 'great leap forward' (under the five year plan for 1971-75), designed to ensure economic growth while maintaining and developing workers' rights and welfare. An essential part of the new strategy was to 'open up' Poland to the world economy, taking substantial loans and importing technology with a view to boosting domestic production and productivity and increasing exports. Economic growth increased dramatically (by 1975 GNP was 50 per cent greater than in 1970) as did wages (which rose by 40 per cent). But while wages grew, so too did consumer demand. With food prices strictly controlled, the government was obliged to increase subsidies without being able to guarantee increased supply. The economic pressures created by this level of subsidy were enormous.

In June 1976, the government tried to raise food prices by 60 per cent. Widespread strikes and demonstrations followed, with factory occupations providing the strategic core of the protest movement. The government rescinded the price increases in the face of concerted protest and the threat of a general strike. The economy deteriorated and the government became increasingly dependent on foreign creditors to maintain the level of public expenditure considered politically necessary. Between 1971 and 1980 the foreign debt grew from $1.2 billion to $24.7 billion. Central planning was increasingly compromised, living standards stopped rising and then fell back, spending of social services was reduced, social inequality grew and the black market blossomed. Consequently, "the working class became increasingly angry, not only at the frustration of its quantitative demands, but especially at what it saw as the violation of its socialist social rights" (Macdonald 1983: 12).

During the last three years of the decade, economic and political tensions grew as the government struggled to maintain its commitment to growth and welfare in the face of a deepening economic crisis. In order to forestall social and political unrest, the government repeatedly granted wage increases and raised subsidies on foodstuffs, financing these with loans from the West. It attempted, in particular, to satisfy the industrial workers in the large factories with relatively high wages, cheap and well stocked canteens, and other benefits: these plants were hailed as 'the citadels of Polish socialism'. Despite these efforts, anger mounted at increasing inflation (which reached 103 per cent in 1981), generally declining living standards and welfare provision, and the perceived betrayal by the state of the principles of socialist justice. The growth of corruption within the ranks of the Party and state officialdom contributed to popular unrest. Between 1977 and 1979, the number of strikes reached around a thousand, with the majority settled in favour of the workers.

Attempts by the government during 1979 and 1980 to raise food prices produced widespread anger and outrage. The growing social unrest came to a head with the strike movement of August 1980, which started in the Gdansk shipyards - under the leadership of Lech Walesa, who had been fired from the yards in 1976 for his part in the strikes - and spread rapidly to become a national movement affecting all the major industrial centres and no fewer than 4,000 enterprises.

The strike movement of 1980, although initiated as an immediate response by workers to price increases, drew on the previous experience of workers' protest and rapidly became an effective organisation. It also involved intellectual activists from an early stage and soon transformed itself from a workers' protest to a politically-oriented trade union federation of strategic significance. Of the 21 demands presented to the government by the workers in Gdansk in August 1980, the most momentous was that calling for the right to form autonomous trade unions, independent of state and Party. Within a year, the new federation - Solidarity - was recognised and had a membership of around 7 million (nearly a fifth of the Polish population) and had become a broad-based political movement in opposition to the Communist Party government.

In December 1981, with the support of the Kremlin, the Polish army took power and General Jaruzelski became Communist Party first secretary and prime minister. Thousands of Solidarity activists were arrested, including Walesa; strikes were put down by force and Solidarity went underground. The struggle, however, continued; despite the repression, Solidarity was eventually to acquire even more widespread support and, at the end of the decade, to form the government.

In the meanwhile, the economic situation deteriorated further. With a foreign debt of around $25 billion (whose servicing alone threatened to consume the total value of annual exports), the Polish economy was on the edge of bankruptcy. Meanwhile, the very success of the new trade union movement exacerbated the crisis, with the overall wages bill increasing by 20 per cent in the aftermath of the strikes of summer 1980 and the volume of production declining with the introduction of a shorter working week in heavy industry and mining. Low productivity in agriculture remained a crippling handicap for the economy as a whole, with gross inefficiency in the state sector and the system of fixed food prices discouraging small producers from expanding production and selling their produce. The government was only able to raise agricultural prices without incurring the wrath of the newly organised urban workers by providing costly state subsidies, which in turn increased the foreign debt. Structural change was increasingly required; but the political conditions tended to prevent it.

Time and time again, over the next few years, massive price rises of sometimes several hundred per cent were proposed; but since the population reacted violently, often with strikes, to these measures, they were generally only implemented in a directly or indirectly reduced form. Although by the end of 1986 the government had succeeded in reducing the proportion of the national budget spent on subsidies to 30 per cent (from 50 per cent in 1982), largely by cutting grants given to enterprises, in that year alone price subsidies for essential consumer goods increased by 46 per cent. In addition, deficiency payments were made to groups earning less than 13,000 zloty in order to compensate them for price increases. In April 1987, an attempt to raise the price of foodstuffs by 14 per cent and coal by 100 per cent was met with massive protest; even the new state-organised trade union (the OPZZ), threatened strike action. Prices eventually rose by 50 per cent for coal, 25 per cent for petrol and gas, 23 per cent for electricity and just under 10 per cent for food; at the same time, additional deficiency payments and wage increases were announced.

In 1987, the Jaruzelski government released the last of the Solidarity activists from jail in a bid to gain greater support for government policies. New strikes broke out, however, under the familiar banners of Solidarity (still technically illegal), and in February 1988, a series of 'roundtable talks' was initiated which brought Solidarity into discussions with the government. In 1989, Solidarity was made legal and in the July elections gained substantial support from some of the smaller parties that had also been legalised to occupy the opposition benches in the Sejm (the national assembly) as a major independent force. In August, when General Jaruzelski nominated a Solidarity activist, Tadeusz Mazowiecki, as prime minister, he was confirmed by an overwhelming majority of the Sejm to take command of Poland's first non-Communist government since 1947.

The problems facing the new Solidarity government were enormous. The foreign debt was now $40.4 billion (up over $10 billion on 1985 and equivalent to 470 per cent of exports). During the summer of 1989, the USA doubled an earlier offer of $50 million in food aid, while the EC approved a figure of $325 million. Poland's needs, however, were calculated at between $1 and 1.2 billion. There was now overwhelming pressure, particularly from the international financial agencies and foreign advisers, to liberalise the economy. So the country in deepest economic difficulties in eastern Europe took the lead in introducing far- reaching reform measures. Retail prices were increased in October 1989 and in the following quarter food consumption had fallen by 10-15 per cent as household real income dropped by an average of 30-40 per cent. In December 1989 an agreement was concluded with the IMF which provided a substantial but conditional loan (L350 million) and the Mazowiecki government committed itself to a 'big bang' programme to start in 1990.

The stated objective was to transform the economy through rigorous stabilisation, liberalisation and structural adjustment, into an economy based on private institutions, with market determination of prices and a convertible currency. Food and other subsidies were to be reduced by 50 per cent and it was anticipated that real wages would decline by 20 per cent. One of the most striking effects of the new policy measures was a rapid increase in unemployment, which rose from virtually zero prior to January 1990 to over 6 per cent of the labour force by December 1990, increasing at the rate of about 100,000 a month. Open unemployment had reached about 1 million by the end of 1990; industrial output had dropped by about 25 per cent and real GDP by some 12 per cent. Real wages fell sharply by about 25 per cent immediately after the January 1990 reforms and then continued on a downwards trend. Foreign advocates of 'the big bang' remained boldly optimistic. They hoped that "cuts in military spending and investment in heavy industry, combined with new external financing from abroad, can reduce the need for large cuts in current consumption" (Lipton & Sachs 1990: 87). New external financing meant that the foreign debt grew to nearly $50 billion.

In April 1991, the Paris Club agreed to an unprecedented debt forgiveness package, cancelling up to 50 per cent of the $33 billion owed to Western governments; the deal was conditional on Poland's agreement to a three-year adjustment programme with the IMF (also signed in April) and on successful implementation of the agreed programme. But a plan to cancel or at least re- negotiate Poland's debt to Western commercial banks failed to materialise. The economy remained in deep recession: GDP and output both fell significantly during 1991 (by an estimated 8-12 per cent and 12-18 per cent respectively). Inflation remained high, at around 80 per cent, against an initial IMF target for 1991 of 36 per cent.

Czechoslovakia

The market reforms introduced by President Dubchek at the end of the 1960s as part of the attempt to follow a distinctive national path of socialist development in Czechoslovakia were abolished after Warsaw Pact troops invaded and crushed the 'independence' movement. After this intervention, Czechoslovakia remained one of the more conservative of the eastern European socialist states. Compared with Hungary and Poland, Czechoslovakia was relatively 'closed'. Political dissidents began to emerge as an organised force, however, in the mid 1970s with Charter 77, and pressures for change to build up.

By the end of the 1980s economic growth was slowing, although by comparison with its east European neighbours, Czechoslovakia's difficulties were relatively minor. It had a much lower level of external debt ($8 billion in 1990) and during the 1980s was a net exporter with exports usually exceeding imports by more than 120 per cent. GNP per capita averaged between $2,750 and $3,500 during the 1980s; and the population was relatively affluent - according to one source, one in three families owned a car and weekend cottage, and a refrigerator and colour television were the norm (Europea Publications 1992: 141). Unemployment did not officially exist until 1990, although it has been estimated that overemployment was at least 15 per cent.

In April 1989, the government had promised **perestroika**, a limited opening to the West and even more limited democratisation under the Communist Party. But over the next few months, demands for a more significant change began to grow. A rally of 3,000 held in August 1989 in favour of political reforms was broken up by the police; a larger demonstration in October, involving some 10,000 people, evoked the same response. Despite advice from president Gorbachev to undertake reforms in order to prevent social unrest, the Prague regime under Milos Jakes continued to repress any such demonstrations of protest; a student rally was dispersed brutally in early November, and the numbers of supporters of such opposition groups as Civic Forum and (in Slovakia) Public Against Violence mushroomed. It has been argued that "Czechoslovakia's mass mobilisations arose mainly from the Communist leaders' resistance to change, rendered even more anachronistic by the evolution under way in neighbouring countries. In Prague, as in Hungary, the level of violence was practically nil: the authorities took limited recourse to repressive measures before giving in once and for all" (di Cortona 1992: 322).

On November 19th 1989, some 20,000 protestors marched in Prague, and the next day an estimated 250,000 gathered to demand the resignation of the government. Jakes quit to be replaced by a relative liberal, Karel Urbanek. Alexander Dubcek, hero of the 1968 'Prague Spring', returned to Prague to the cheers of a crowd of 300,000; a day later, half a million people rallied in Prague and workers staged a two hour general strike that brought the country to a standstill. At the end of November, parliament voted to end the political monopoly of the Communist Party; and in December, a coalition government of with a minority of non- communists was formed. This proved unacceptable to the Czechoslovakian people, who staged mass rallies in protest; by the end of the year, Dubcek was elected speaker of parliament and the playwrite Vaclav Havel, president of Czechoslovakia. State socialism in Czechoslovakia had collapsed, in what Havel called 'the velvet revolution'.

The coalition government applied to join the IMF and the World Bank in December 1989 and strains began to develop almost immediately over the pace of reform. Asked if he would start to institute 'a heavy dose of monetarism' as he had indicated he might do to the press, the new prime minister responded: "I would like to, but the question is, is the Czechoslovak public ready for it? Are my colleagues in the government ready for it?". But the finance minister argued, in an article in the **Financial Times**, for 'an evolutionary approach' in which the importance of pragmatic flexibility rather than moralistic or ideological fundamentalism was stressed, and called for 'a new social contract' and a 'policy of credible gradualism'. According to one source, "some in the government want to capitalise on the strength of popular support by starting to impose painful austerity measures now. Others want tough measures deferred until after the (June) elections, hoping these will produce a government with a strong mandate for reform" (**The Guardian** 22.3.90).

The June elections demonstrated overwhelming support for parliamentary democracy (96 per cent turnout) but also underlined the differences between the two republics - only two parties (the coalition of Civic Forum and Public Against Violence, and the Communist Party) nominated candidates in both republics.

The coalition won the majority, but disagreements between Czechs and Slovaks impeded the development of a new constitution and a coherent economic strategy.

In March 1990, the government had proposed a programme including severe austerity measures aimed at 'curing inflation'. The reforms were originally to be adopted in April but eventually were introduced only at the start of 1991 after parliament's approval in the autumn. The Czechs generally favoured faster reform, the Slovaks more gradual reform. The reforms agreed included the elimination of central planning and the creation of an office of privatisation, internal convertibility of the koruna, and price liberalisation accompanied by the abolition of subsidies in stages. The deputy prime minister stated that, although price rises were among the most politically sensitive reforms, the sooner they were introduced the better, while the government enjoyed a popular mandate; and some experienced commentators suggested that "there is a risk that resistance to reform may grow as a result of the increased economic and social costs caused by the combined effects of economic reform and a deteriorating international environment" (Killick & Stevens 1991: 7), pointing out that "attempts to alleviate the social costs of adjustment often tend to preserve existing structures of employment and production, and thus slow down structural change" (ibid., 28).

In fact there were also attempts to protect workers in the new reformed economy. The new Employment Act - democratically negotiated by government, trade unions and employers - guaranteed the right to unemployment benefits and to assistance in finding new work for those made redundant. A minimum wage was agreed, for the first time, and wages indexed so that they could not fall more than 10 per cent a quarter (Kapl et al 1991: 209). Unemployment benefit was set at 50-60 per cent of the previous level of earning, for one year; after that it was to be means- tested. A 1991 poll indicated that nearly 60 per cent of the population felt that it would be the government's responsibility to create jobs if they were made unemployed. Reforms in other areas of social security, pensions, health, education and housing were to be introduced, although carefully.

In the first four months of 1991, industrial output slumped by 12 per cent (around 9 per cent of this the result of the collapse of trade with the Soviet Union and COMECON). One analyst estimated that in 1991 as a whole, GNP growth was down by 16 per cent, industrial production down by 23.4 per cent, the rate of inflation at 53.6 per cent, with a growing budget deficit and increasing trade and balance of payments problems (Steiger 1992). Unemployment had reached 7 per cent by December 1991, with marked regional disparities - 10.3 per cent in Slovakia and 3.9 per cent in the Czech Republic. But, despite this, the finance minister in charge of the country's strategy for transformation to 'a free market economy' ruled out any backtracking in the country's reform programme. Any compromise between a centrally planned and a free market economy was the 'impractical ambition of intellectuals wanting to create the Brave New World of Aldous Huxley', he declared.

The strains of economic reform, however, increased social tensions, including those between nationalities. Already in 1990 there had emerged differences between Czechs and Slovaks within the government over the pace and nature of economic reform and the implications for the regions. In March 1991, separatists staged a mass demonstration in the Slovak capital, Bratislava, demanding independence from Prague. The rally was in support of the campaign for the formation of a separate Slovak state which was launched with a declaration of sovereignty the previous week by a number of disparate nationalist groups. One of the concerns of the Slovak separatists was the tough programme of economic reform being undertaken by the federal government, and one of the promises offered was Slovak sovereignty and a 'softer' economic reform programme. While Czechs generally appeared to accept the need to make sacrifices in the transition to the a market economy, there were greater fears in Slovakia, already hit by higher unemployment and stranded with outmoded heavy industry geared to the needs of the Soviet Union. The fears of the Slovaks about the possible consequences of economic reform were accepted by federal government officials, who reassured them that special help would be forthcoming; but they insisted that a twin-track reform would be disastrous for both republics.

Throughout 1992, the government pursued its reform policies, but in the face of increasing opposition from the nationalists of both republics. The balance of trade deteriorated rapidly during the year, from -0.04 to -43.85. The 1992 elections revealed the deep divisions over economic strategy between the dominant parties in the two republics: the Movement for a Democratic Slovakia was separatist and advocated gradual reform, while the Czech Civic Democratic Party wanted rapid economic change. On January 1st 1993, the Czech and Slovak Federative Republic was divided into two separate republics. It is questionable whether partition would have taken place had the issue been democratically decided, through a referendum - which under the existing constitutional arrangement was the only way the country could be divided. A poll in September 1992 showed 36 per cent of Czechs in favour of separation and 44 per cent against; in Slovakia, there were 37 per cent in favour and 43 per cent against. The poll also showed that 82 per cent of Czechs and 86 per cent of Slovaks favoured a referendum (Wilson 1992: 70). But the nationalist leadership in both republics opposed a referendum on the grounds that the majority might vote to remain within a common state.

Democracy remains a new and fragile thing. As in many other east European states, reaction against Communist Party rule takes harsh forms; in January 1992 a new law banned former party cadres from holding certain state positions for five years. In response to the suggestion that this constituted a breach of internationally recognised human rights, it was argued that "the law is unacceptable to the international community, but necessary as our democracy isn't mature enough yet" (Barfoed 1992: 18). And whilst Czechs express overwhelming support for liberal democratic values, including tolerance, a 1990 study suggests deep prejudice against gypsies, homosexuals and Arabs (Musil 1992: 192).

Since division, the Slovak government has been characterised by splits and factions; coalition with the renamed Communist Party was necessary in April 1993. The government remains committed to a gradual process of reform - a variant of market socialism, but the economy continues to deteriorate, with the budget deficit increasing by $460 million in the first three months of the year, and unemployment at 13 per cent. Popular protest against government policies is also becoming more widespread. The Czech Republic is more stable and has recently confirmed its close relationship with Germany (which together with Austria accounts for more than 70 per cent of foreign investment). The government - Vaclav Klaus' Civic Democratic Party - favours rapid economic reform.

The two republics arguably reflect a major division within eastern Europe today - between the relatively strong 'northern' economies, moving rapidly in the initial aftermath of 1989 towards liberalisation under new centre-right 'reformist' governments (generally closer to Western Europe) and the weaker 'southern', generally less developed economies, where gradualism was favoured and the political transformation left the old communist parties with greater influence and power, and the structures of state socialism to some extent at least intact.

iii. The 'southern' states

Bulgaria

In Bulgaria, president Gorbachev's advice to introduce reforms was taken seriously by the political leadership. Under Todor Zhivkov, the Bulgarian Communist Party had maintained a strict control over the economy and political life for 35 years; but in November 1989, the day after the Berlin Wall was dismantled, Zhivkov was replaced as Party chief by the relatively liberal reformist Petar Mladenov. He nominated a reformist cabinet, permitted political opposition and changed the Party's name to the Socialist Party. The government was committed to economic reform, but on a gradual basis with significant protection to maintain social welfare. As Deacon reports, "in a series of social agreements between the government and the two trades union movements, a 70 per cent compensation policy was adopted whereby all price rises would be compensated at that level in wages. A well structured unemployment benefit system was also agreed" (Deacon 1992: 27). It was recognised that such an approach was always likely to be costly and lead perhaps to a relative uncompetitiveness of the economy. In fact, there was a widespread downturn in the economy during 1990, with the economic reform programme itself contributing to the problems. In March 1990, the Foreign Trade Bank revealed that it was practically insolvent; in August, it was announced that output was down 10 per cent on 1989, and rationing was introduced for many household essentials.

Nevertheless, the new Bulgarian Socialist Party narrowly won the elections to the national assembly in June 1990, gaining 47 per cent of the vote and retaining the mandate to pursue its relatively cautious programme. The Union of Democratic Forces (UDF), which won 37 per cent of the vote, favoured a 'big bang' approach and declined to join the coalition government proposed by the BSP.

Popular unrest, which had begun to grow during 1989, was contained and sufficient support retained for the reconstituted Communist Party to stay in power. But the economic crisis continued, and the prime minister, Alexander Lukanov, was jeered by the opposition and demonstrators in November 1990 when he announced price increases of between 30 and 60 per cent before the end of the year. By the end of 1990 there was growing pressure on the prime minister to resign; he survived a no confidence vote in parliament and won approval for an austerity budget; but demonstrations calling for his resignation continued, and eventually the Podkerpa trade union called a strike which brought the government down. In December, a coalition government with strong UDF representation was formed under a new, non-party prime minister and with a commitment to radical reform.

During 1990, the Bulgarian foreign debt had reached $11 billion (136 per cent of GNP). The government sought first a delay then a halt to all debt payments. It managed to obtain a massive loan through the IMF (L1,540 million), agreement on which involved the removal of price controls on food and other basic goods and services. (The cost of living had risen by at least 100 per cent during 1990). Prices were liberalised on February 1st 1991. In the same month, the Bulgarian government unified exchange rates, moved to a floating currency, and liberalised most foreign trade. It also liberalised most retail and producer prices and adopted tighter controls on wages in the public sector. The price explosion (up to 1,200 per cent for some goods) stunned the population. Basic foodstuffs remained controlled, but at levels seven times higher than in January. The government estimated that the measures would entail a drop in living standards of some 30 per cent. Wages were planned to rise by 70 per cent in March, but there was a delay of six weeks between price liberalisation and pay rises - which in any case failed to match the rise in prices. According to one source, responses among the population at large included horror and despair, but little anger (**The Guardian** 15.2.91).

Rumania

The same dexterity was not shown by the Rumanian regime, although there too the Communists were to retain power. Rationing was expanded and strictly enforced after October 1989 and the Ceausescu government claimed that the transition to a market economy would take place gradually: a first stage, of 1-3 years, intended to lay the foundations; a second, of at least five years, to modernise the national economy. The gradualist approach of the old regime proved unacceptable, however. Widespread social unrest and overt opposition to the government of Nicolae Ceausescu began when demonstrations in Timisoara (initially organised to protest the repression of Hungarians in Rumania) were brutally crushed by the Securitate, who opened fire, killing hundreds. Protests spread and social unrest became pervasive. Towards the end of December, after Ceausescu had been shouted down by protestors at his own rally, the regular army joined in the struggle against the government and its supporters in the security apparatus. Fighting continued for some days and hundreds were killed; but the former dictator and his wife were captured, given a quick military trial and executed by firing squad on Christmas Day.

Relatively liberal communists, some of whom had been under house arrest for criticising Ceausescu, formed a Council of National Salvation and pledged to introduce effective democracy; the Council named Ilion Iliescu president. Critics of the new regime demanded the resignation of all former communists from the government, but Iliescu held firm and was confirmed in power at the elections held in spring 1990. The new government initiated a series of economic reforms, liberalising trade in agricultural products in particular. But the domestic supply of foodstuffs remained inadequate; industrial production fell by nearly 20 per cent and investment by 35 per cent, while inflation rose by nearly 30 per cent. Nominal wages increased by only 8 per cent and national income fell by 10 per cent. At the end of October, the Rumanian prime minister, faced with a transport strike, ordered the use of army vehicles in emergency.

Late in 1990, Rumania embarked on a round of negotiations with the IMF. Agreement was initially hampered by concern over the removal of food subsidies; but prices, including food prices, were liberalised in early November, with a second round of cuts in January 1991. The scrapping of controls sent prices rocketing on all but a handful of essential items, such as bread and rents, which remained protected. Panic buying left many shops empty. On November 5th it was reported that the price increases which had sparked demonstrations in the capital, represented only the beginning of the government's strategy to create a market economy. But, widespread strikes and street protests forced the government to postpone the planned second round of increases (together with measures to introduce unemployment benefit, reform the tax structure and embark on large-scale privatisation), and to adopt a somewhat more 'moderate; strategy which limited price increases to between 100 and 200 per cent. The European Community agreed that Rumania now met the preconditions for EC aid - consolidation of democracy and moves towards a market economy.

Albania

The overthrow of Ceausescu left Albania as the only state socialist regime in Europe not to experience massive popular unrest and political upheaval in 1989. That was shortly to change. In January 1990, president Ramiz Alia referred to the collapse of communism in eastern Europe as a tragedy, but announced plans for economic and political reform which included multi-candidate elections to the People's Assembly, decentralisation of light industry and transport, more private housing and productivity-linked wage increases. Economic stagnation during the 1980s had been disastrous for Albania; but the strategy of borrowing from abroad to revitalise the economy, adopted by many of the other central and eastern European states during the 1970s and 1980s, was precluded by the constitution which banned foreign loans. In February 1990, however, the introduction of 'a new economic mechanism' permitted foreign investment for the first time in a decade.

The cautious pace of Albanian reform proved increasingly unacceptable to many Albanians. During 1990 there were demonstrations and even strikes protesting economic conditions and demanding political changes.

In December, as thousands of students demonstrated in the capital and clashed with riot police, the ruling Communist Party held a special conference to consider economic and political reforms. The conference made proposals which included economic liberalisation and the recognition of political parties other than the Communist Party with a view to contested elections in 1991. The newly formed Democratic Party staged well attended rallies over Christmas and began to prepare for elections in March. While the communists proposed a gradual introduction of 'market mechanisms' into a still largely state controlled economy, the 'democratic' opposition favoured radical economic liberalisation: its manifesto called for 'the creation of a share-owning democracy, the end of centralised communist control, and the distribution of land to the peasants working it'. Strikes and demonstrations continued during the early part of 1991, but in the elections the Communist Party, now renamed the Party of Labour, gained the majority in the national assembly despite very considerable opposition in the major urban areas, including the capital, Tirana. In several towns, there were demonstrations in protest against the results of the elections, while on the streets of Tirana, apparently, "people wept openly, rubbing their stomachs to indicate their belief that more hunger was in store" (**The Guardian** 2.4.91).

In June 1991, following nearly six months of social unrest, and only two months after the communists won their first contested elections, a new coalition government was sworn in. The Democrats took control of most of the economic portfolios. Painting a grim picture of economic breakdown and mounting social chaos, the new prime minister, Ylli Bufi, appealed for foreign aid to help restore law and order, put the country back to work and introduce the basic elements of a market economy. He promised to devalue the lek, free prices (apart from those of basic foodstuffs) and close down unproductive plants and factories. In July, shocked by evidence of economic collapse and widespread food shortages and concerned about the breakdown of law and order, the EC proposed a multi-million pound emergency food and medical aid programme.

Towards the end of the year, the government withdrew subsidies on large enterprises and introduced price liberalisation; prices rose fourfold in five weeks and unemployment soared. As food production fell, only $1 million of food aid arriving every day prevented mass starvation. By December food riots were becoming common and widespread. At the end of 1991, the Democratic Party pulled out of the coalition government, and president Ramiz Alia appointed the former minister of food to head a caretaker government until the elections due in spring 1992.

PART THREE

1. IDIN Data Base and information

The IDIN data base proved particularly useful in the initial stages of putting together this paper. It provided a range of basic references, responding to requests for information using key words of a relatively general kind. On the second round of requests, for more specific information, the IDIN data base again produced a wide range of references.

The EADI's wide availability of different documents has proved more helpful than most libraries. We are particularly grateful to Tinka Ewoldt for her assistance in transmitting the information from the IDIN data base via the electronic mail and post.

A major difficulty was that, while issues such as a structural adjustment, governance and democratisation have been much discussed with reference to 'the Third World' over the past few years, they have not been addressed in these terms in Western Europe at least. In Eastern Europe, the issues concerned have been increasingly discussed and analyzed since 1989, but again in somewhat different terms. A good deal of European research, published in European economic, social and political journals, referring to the topics concerned relate to 'the Third World' rather than to Europe itself. As a result, key words which might have produced a set of sharply focused articles and papers for Africa, Asia or Latin America (such as 'structural adjustment') were not as useful in regard to Europe; although they threw up a mass of articles and books relating to structural adjustment, governance and democracy in other parts of the world.

Accessing relevant articles with a relatively small selection of key words posed problems which were eventually only overcome by reading a very large body of material. We had to draw on an exceptionally wide range of materials, much of it derived from sources other than IDIN, in order to address the topics which form the central concern of this paper - and those of all the regional papers. In the end, however, roughly two-fifths of the bibliography attached to the paper derive from IDIN data.

The bibliography is quite extensive. The more specific items are highlighted by a '$' sign, while those accessed using IDIN are indicated by a '@' sign.